ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE REVIEW AND POSSIBLE REVISION OF ARIZONA UNIVERSAL SERVICE FUND RULES, ARTICLE 12 OF THE ARIZONA ADMINISTRATIVE CODE.	**Docket No. RT-00000H-97-0137**
IN THE MATTER OF THE INVESTIGATION OF THE COST OF TELECOMMUNICATIONS ACCESS.	**Docket No. T-00000D-00-0672** **NOTICE OF FILING TESTIMONY**

AT&T Communications of the Mountain States, Inc. and TCG Phoenix give notice of the filing of the public version of the Rejoinder Testimony of Dr. Debra J. Aron and the Rejoinder Testimony of Dr. Ola Oyefusi.

RESPECTFULLY SUBMITTED this 5th day of March, 2010.

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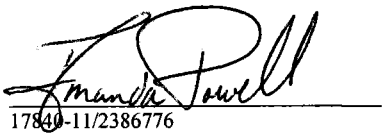

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IN THE MATTER OF THE INVESTIGATION OF THE COST OF TELECOMMUNICATIONS ACCESS.	Docket No. T-00000D-00-0672

REJOINDER TESTIMONY OF

DR. DEBRA J. ARON

On Behalf of
AT&T Communications of the Mountain States, Inc. and TCG Phoenix

March 5, 2010

PUBLIC VERSION

Table of Contents

DOCKET No. RT-00000H-97-0137
DOCKET No. T-00000D-00-0672
AT&T COMMUNICATIONS OF THE MOUNTAIN STATES, INC.
AND TCG PHOENIX
REJOINDER TESTIMONY OF DR. DEBRA J. ARON

I. Introduction

Q: ARE YOU THE SAME DR. DEBRA J. ARON WHO SUBMITTED DIRECT AND REPLY TESTIMONY IN THIS PROCEEDING?[1]

A: Yes, I am.

Q: WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY?

A: I am responding to the Reply Testimony of Lisa Hensley Eckert on behalf of Qwest Corporation and Qwest Communications Company (hereafter referred to as "Qwest"); the Reply Testimony of Don Price filed on behalf of Verizon California, Verizon Business Services, and Verizon Long Distance (hereafter referred to as "Verizon"); the Reply Testimony of Douglas Garrett on behalf of Cox Arizona Telcom; and the Reply Testimony of Douglas Denney filed on behalf of Eschelon Telecom of Arizona,

[1] Direct Testimony of Dr. Debra J. Aron on Behalf of AT&T Communications of the Mountain States, Inc. and TCG Phoenix, *In the Matter of the Review and Possible Revision of Arizona Universal Service Fund Rules, Article 12 of the Arizona Administrative Code and In the Matter of the Investigation of the Cost of Telecommunications Access*, Before the Arizona Corporation Commission, Docket Nos. RT-00000H-97-0137 and T-00000D-00-0672, (hereafter *Aron Direct Testimony*), December 1, 2009; and Reply Testimony of Dr. Debra J. Aron on Behalf of AT&T Communications of the Mountain States, Inc. and TCG Phoenix, *In the Matter of the Review and Possible Revision of Arizona Universal Service Fund Rules, Article 12 of the Arizona Administrative Code and In the Matter of the Investigation of the Cost of Telecommunications Access*, Before the Arizona Corporation Commission, Docket Nos. RT-00000H-97-0137 and T-00000D-00-0672, (hereafter *Aron Reply Testimony*), February 5, 2010.

Mountain Telecommunications, Electric Lightwave, McLeodUSA Telecommunications Services, tw telecom of Arizona, and XO Communications Services (hereafter referred to collectively as "Joint CLECs").[2]

Q: DO YOU HAVE ANY COMMENTS REGARDING YOUR PREVIOUS TESTIMONY?

A: Yes. As I observed in my Reply Testimony, Tables 1, 2 and 3 of my Direct Testimony report the figures that ALECA and the CLECs provided in discovery for their average access rates. However, my subsequent review of the data provided by tw telecom uncovered a problem with the way tw telecom had computed its average rate. Tw telecom did not use the methodology that I would have expected and that Qwest, Verizon, and AT&T used to calculate its average rate. Indeed, I found that tw telecom's

[2] Reply Testimony of Douglas Denney on Behalf of Eschelon Telecom of Arizona, Inc.; Mountain Telecommunications, Inc.; Electric Lightwave, LLC; McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business Services; tw telecom of Arizona llc; and XO Communications Services, Inc., *In the Matter of the Review and Possible Revision of Arizona Universal Service Fund Rules, Article 12 of the Arizona Administrative Code and In the Matter of the Investigation of the Cost of Telecommunications Access*, Before the Arizona Corporation Commission, Docket Nos. RT-00000H-97-0137 and T-00000D-00-0672, (hereafter *Denney Reply Testimony*), February 5, 2010; Reply Testimony of Douglas Garrett on Behalf of Cox Arizona Telcom, L.L.C., *In the Matter of the Review and Possible Revision of Arizona Universal Service Fund Rules, Article 12 of the Arizona Administrative Code and In the Matter of the Investigation of the Cost of Telecommunications Access*, Before the Arizona Corporation Commission, Docket Nos. RT-00000H-97-0137 and T-00000D-00-0672, (hereafter *Garrett Reply Testimony*), February 5, 2010; Reply Testimony of Lisa Hensley Eckert on Behalf of Qwest Corporation, *In the Matter of the Review and Possible Revision of Arizona Universal Service Fund Rules, Article 12 of the Arizona Administrative Code and In the Matter of the Investigation of the Cost of Telecommunications Access*, Before the Arizona Corporation Commission, Docket Nos. RT-00000H-97-0137 and T-00000D-00-0672, (hereafter *Eckert Reply Testimony*), February 5, 2010; and Reply Testimony of Don Price on Behalf of Verizon, *In the Matter of the Review and Possible Revision of Arizona Universal Service Fund Rules, Article 12 of the Arizona Administrative Code and In the Matter of the Investigation of the Cost of Telecommunications Access*, Before the Arizona Corporation Commission, Docket Nos. RT-00000H-97-0137 and T-00000D-00-0672, (hereafter *Price Reply Testimony*), February 5, 2010.

computed rate was *less than half* the rate it would have reported if it had calculated its rate using the same methodology as Qwest, Verizon/MCI and AT&T. In order to confirm whether the average rates of the ALECA members and the other CLECs as provided in the first round of discovery suffered from the same inconsistency as the rate tw telecom provided in discovery, AT&T requested additional information in discovery. I confirmed that Verizon/MCI calculated its rates consistent with the methodology of Qwest and AT&T. However, Integra and XO reported revenues and minutes for elements that are not rated on a minute-of-use basis, which caused their intrastate access rates to be understated and their interstate rates to be overstated. Although Cox provided additional data in response to AT&T's discovery request, what was provided was not responsive to the request and did not provide information that would allow me to determine whether its average rates were consistently calculated. Regarding tw telecom, I understand that tw telecom identified an error in the data that it had originally provided in discovery in response to Staff—an error that was separate from the calculation issue that triggered my review of the rates and AT&T's additional discovery requests. Tw telecom has revised its initial discovery response to Staff, but has not responded to AT&T's discovery request seeking to clarify tw telecom's calculation methodology. The data tw telecom provided in its revised response to Staff provided new data that do not appear to be a modification of the data it originally provided but rather appear to be an

entirely different data draw. Because the new data were provided without the level of detail (disaggregation) that tw telecom originally provided with its initial discovery response, and because tw telecom did not respond to AT&T's request, I am unable to determine whether the revised rates are based on the same inconsistent formula as the original data or whether tw telecom has corrected the problem I discussed in my reply testimony. It appears, however, that the revised rates are based on the same inconsistent formula, in light of the fact that the (new) average rate tw telecom is reporting is vastly inconsistent with the rates that appear in its tariff. Specifically, according to tw telecom's revised discovery response, its average blended intrastate access rate is **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** [redacted] **[END HIGHLY CONFIDENTIAL INFORMATION]** cents, while based on its tariffed rates (reported below in Figure 1) its intrastate originating access rate is 3.61 cents and its intrastate terminating access rate is 4.41 cents,[3] both of which are far in excess of tw telecom's reported average price. There is no weighted average of those two numbers that can lead to an average rate of **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** [redacted] **[END HIGHLY CONFIDENTIAL INFORMATION]** cents. Hence, it would appear that the average rate tw telecom provided in its amended response to Staff is substantially understated.

[3] These are the same rates reported by the Joint CLECs' own witness, Mr. Denney, at Table 1 of his Direct Testimony.

At the time of this writing, PAETEC has also not provided the requested information, and therefore its reported average rates cannot be compared to those of Qwest or any other carrier. The rates shown in my Table 2 for PAETEC can only be interpreted as a lower bound on that carrier's comparable average rates.[4]

Below are Tables 2 and 3 with the corrected average rates for XO and Integra.[5]

[4] I understand that Level3 has withdrawn participation in this Docket and has also not provided updated information. Therefore I am deleting Level3's access rates from my updated table.

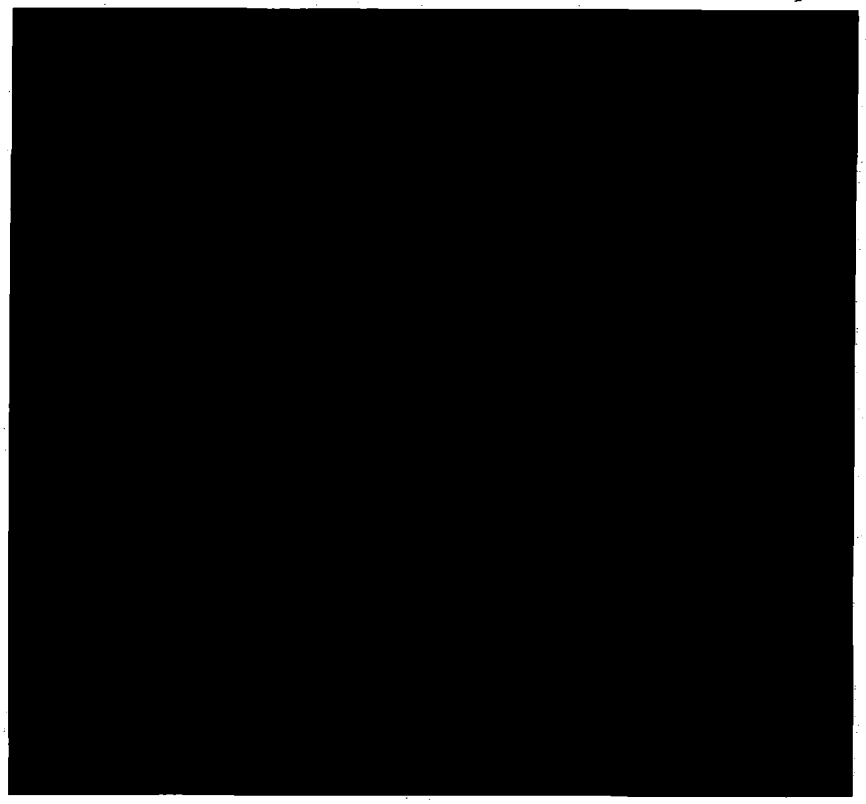
[5] Verizon/MCI's recomputation of the average access rates uses local switching minutes, so they are comparable to Qwest's and require no revision.

Table 2 of Aron Direct Testimony (Revised)

Arizona CLEC Access Charges to Wireline IXCs for Call Origination and Call Termination Services

Bracketed Numbers are Those For Which Necessary Correction is Unknown Due to Inadequate Data Provided in Discovery

[BEGIN HIGHLY CONFIDENTIAL INFORMATION]



[END HIGHLY CONFIDENTIAL INFORMATION]

* Average of TCG, AT&T, and SBC LD

** Average of Electric Lightwave, Eschelon, and Mountain Communications

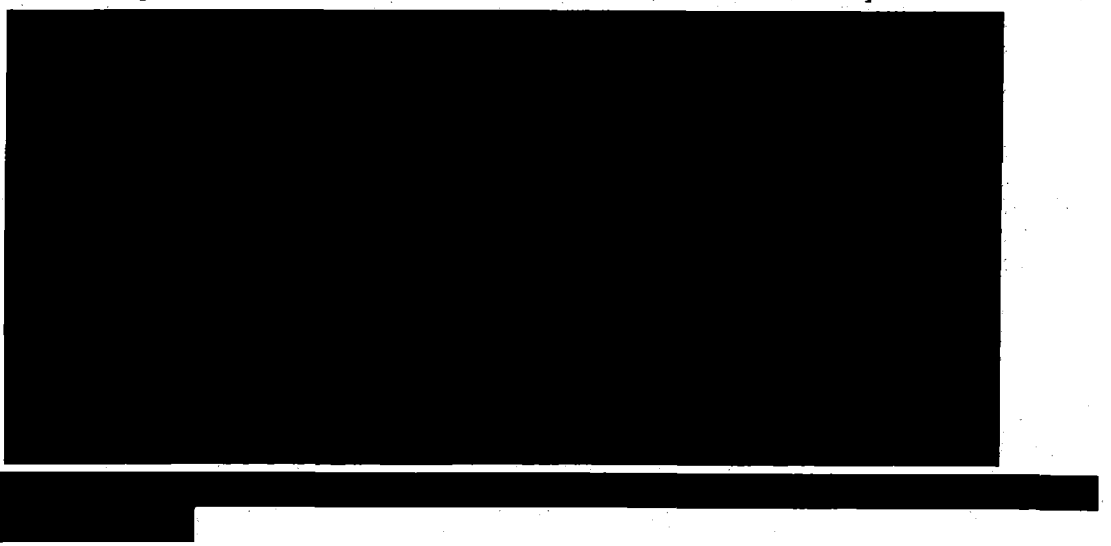
Sources: CLEC responses to Staff's Data Request STF 1.1 and Integra's response to AT&T's Request 4.1.

Table 3 of Aron Direct Testimony (Revised)

Arizona LEC Charges for Call Termination[6]

Bracketed Numbers are Those For Which Necessary Correction is Unknown Due to Inadequate Data Provided in Discovery

[BEGIN HIGHLY CONFIDENTIAL INFORMATION]



[END HIGHLY CONFIDENTIAL INFORMATION]

** For Integra, intraMTA rates are the average of Electric Lightwave and Eschelon, computed as total reciprocal compensation revenues divided by reciprocal compensation minutes billed to wireless carriers. Integra's intrastate and interstate access rates are the average of Electric Lightwave, Eschelon, and Mountain Communications.

Sources: Qwest Supplemental Responses to AT&T's Data Requests 3.9, Cox Communications and Verizon Responses to AT&T's Data Request 2.9; Integra Responses to AT&T's Data Request 2.8; Parties' Responses to Staff's Data Request STF 1.1; and Integra's Response to AT&T's Data Request 4.1.

[6] I have modified the title of Table 3 to clarify that the intrastate and interstate access rates shown are not the termination rates, but the average rate over origination and termination, for "one side" of a toll call (origination or termination but not both).

The changes in Table 2 also affect Figure 1 in my Direct Testimony. I am providing an updated version of Figure 1 as Exhibit DJA-Rejoinder 1.[7]

Q: PLEASE SUMMARIZE YOUR CONCLUSIONS FROM YOUR REVIEW OF THE SUPPLEMENTAL DATA PROVIDED IN DISCOVERY SO FAR.

A: I have found that Qwest, Verizon, and AT&T calculated their rates on a consistent basis. To the extent the other parties provided any data, the data show that they used a methodology to calculate their average rates that understate their average rates so that they appear to be closer to Qwest's rates than they would if computed on an apples-to-apples basis. The fact that McLeod USA (PAETEC), tw telecom, and Cox have not provided sufficient data to determine how their rates were calculated calls their reported rates into question. The fact that tw telecom's reported average blended rate is far out of line with its tariffed rates further calls tw telecom's reported rate into question. I would advise the Commission to view the reported rates of these three CLECs as lower bounds on their actual average rates, and therefore as lower bounds on the degree of monopoly markup contained in those rates.

[7] I have also modified the labels for the intrastate and interstate average rates to clarify that the rates shown are the average rate over origination and termination, for "one side" of a toll call (origination or termination but not both). I also replaced Integra's local termination rate so that, consistent with the other numbers in the chart, it is based on 2008 rather than 2009 revenues and minutes.

Q: DO YOU HAVE ANY COMMENTS ON THE REPLY TESTIMONIES FILED BY THE PARTIES OVERALL?

A: Yes. With respect to the issues I have addressed in my testimony, the Reply testimonies provided very little in the way of arguments or analyses that I had not either already addressed in my Direct Testimony and/or in my Reply Testimony. Hence, I will keep my comments brief in this round and refer the Commission to the extent possible to my earlier testimony. One of the most significant areas of dispute between the parties, however, is that Qwest's proposal (supported by Verizon, ALECA, and Staff) is to reduce all LECs' intrastate access rates to Qwest's intrastate access rate; while AT&T's proposal (supported by Sprint) is to reduce all ILECs' intrastate rates to their interstate rate and all CLECs' intrastate rates to the intrastate rate of the competing ILEC. In addition, Qwest's proposal, like AT&T's, is to permit the ILECs only partial recovery of forgone revenues from an expanded AUSF fund, with the opportunity for the rest of the forgone revenues to be recovered via increased retail rate caps. ALECA requests all forgone revenues to be recovered from an AUSF fund. I believe it will help advance the Commission's thinking to provide an analysis of the differences between these proposals, which I provide in Section II.

II. <u>Comparison of Qwest/Verizon proposal vs. AT&T/Sprint proposal</u>

Q: THE ILECS IN THIS PROCEEDING (QWEST, VERIZON, AND ALECA) HAVE PROPOSED TO CAP THE ACCESS RATES OF ALL PARTIES AT QWEST'S INTRASTATE ACCESS RATE. WHAT ARE THE PRACTICAL

IMPLICATIONS OF THIS PROPOSAL VIS À VIS AT&T'S PROPOSAL TO CAP THE ILECS' ACCESS RATES AT THEIR INTERSTATE LEVEL AND THE CLECS' RATES AT THE RATES OF THE COMPETING ILEC?

A: The differences in the practical effect of these proposals fall into three categories: the effect on long distance customers and economic efficiency via lower average access rates; the effect on arbitrage opportunities; and the effect on AUSF funding.

The biggest difference in practical terms—that is, in terms of how the proposals will affect overall average access rates, retail toll prices, overall LEC revenues, economic efficiency, and consumer welfare—is that under the Qwest proposal, Qwest will be able to charge intrastate access rates that are double the rates Qwest would be required to charge under AT&T's proposal. Quantitatively, this is the most important single difference between the proposals because Qwest accounts for **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** [redacted] **[END HIGHLY CONFIDENTIAL INFORMATION]** of all intrastate access minutes in Arizona.[8] If Qwest is not required to reduce its access rates, the overall reduction to the average intrastate access rates paid by IXCs in Arizona will be substantially muted and the effect on reducing long distance prices will be correspondingly muted as well. Moreover, I understand that AT&T's elimination of its in-state connection fee (ISCF), which would

[8] This estimate is based on the sum of intrastate minutes reported by all carriers that provided information for this proceeding.

be a significant benefit to consumers, occurs only if intrastate access rates are reduced to interstate levels (i.e., AT&T's proposal).

In addition to the effect on Qwest's rates, under the ILEC proposal the average rate charged by ALECA companies would be higher than under the AT&T proposal. The effect would differ for each ALECA member, however. There would in fact be several ALECA members that would charge more under AT&T's proposal than under Qwest's, but these are very small carriers and they collectively account for less than one fourth of the total ALECA intrastate access minutes. Hence, overall, the average intrastate access cost to IXCs charged by ALECA members would be lower under AT&T's proposal than under Qwest's.

In addition, each CLEC would charge less under AT&T's proposal than under Qwest's.

Therefore, because the rates for intrastate access paid by IXCs would be lower overall under AT&T's proposal than under Qwest's, intrastate long distance customers in Arizona would experience significantly greater benefit under AT&T's proposal than under Qwest's proposal, and economic efficiency would be greater under AT&T's proposal than under Qwest's.

Q: HOW WOULD THE TWO PROPOSALS DIFFER WITH RESPECT TO ARBITRAGE OPPORTUNITIES?

A: While there is more than one form of arbitrage related to distorted access rates, Qwest's proposal will not solve any arbitrage problem, while AT&T's will solve the one form of arbitrage that *can* be solved by this Commission, interstate-intrastate traffic diversion. There are two general kinds of arbitrage that are relevant for these discussions: arbitrage involving diversion of traffic from one jurisdiction to another to take advantage of the differences in rates; and arbitrage involving schemes such as call-pumping that take advantage of the difference between the rate and the cost of providing the service.

In fact, both kinds of arbitrage are better managed by AT&T's proposal than by Qwest's. Regarding traffic diversion, AT&T's proposal eliminates the difference between interstate and intrastate rates, thereby eliminating traffic-diverting arbitrage between interstate and intrastate traffic. Qwest's proposal perpetuates differences between interstate and intrastate rates and is thereby inferior for reducing traffic shifting forms of arbitrage.

Regarding call-pumping and similar schemes, AT&T's proposal is superior as well. For almost all traffic, under AT&T's proposal the intrastate rate will be closer to the ILEC's cost of providing access functionality, thereby affording less opportunity for arbitrage. For those ALECA members who would charge a higher intrastate rate under AT&T's proposal, the opportunity for call-pumping-type arbitrage is effectively the same under

either proposal, because in either case the best opportunity for call pumping would be against the interstate rate, which would be unaffected by both proposals. Qwest appears to suggest that call-pumping-type schemes would be more effectively limited by its proposal,[9] but this assertion is incorrect. It fails to recognize that reducing the intrastate rate below the interstate rate will not decrease call-pumping arbitrage opportunities relative to reducing intrastate rates to interstate rates, because in either case the carrier can arbitrage against the interstate rate. This Commission does not have control over arbitrage opportunities created by interstate access rates, reform of which requires FCC action. Hence, this Commission cannot fully solve the problem of call-pumping arbitrage through any form of intrastate access reform. While not a full solution, AT&T's proposal would be more effective than Qwest's proposal at limiting call-pumping incentives, which is the relevant issue before this Commission.[10]

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[9] See, Qwest's Response to AT&T Data Request 5-001, and *Eckert Reply Testimony*, p. 3.

[10] Qwest references in testimony and in discovery (Qwest's Response to AT&T Data Request 5-001, and *Eckert Reply Testimony*, p. 3) a third form of arbitrage, in which VoIP providers that arrange with LECs to deliver their originating VoIP traffic to the PSTN will contract with the LEC with high access fees, presumably in order to share in the revenue from the high access fees. This form of arbitrage, however, would also not be eliminated by Qwest's proposal. Indeed, under either Qwest's or AT&T's proposal, VoIP providers with an inclination to engage in this form of arbitrage would continue to have the ability and incentive to shop for the LEC with the highest originating *interstate* switched access rates, which would be the same under either proposal, and route all its traffic through that LEC. Hence, again, full resolution of this form of arbitrage requires FCC action on interstate rates, which are not under this Commission's control.

Q: HOW DO THE TWO PLANS DIFFER WITH RESPECT TO THEIR BURDENS ON UNIVERSAL SERVICE?

A: Dr. Oyefusi has shown that Qwest can reduce its intrastate rates to its interstate levels and recover the forgone revenue entirely from rate increases without undue burden on consumers and no burden on universal service funds.[11] Therefore, with respect to Qwest there need not be any difference between the proposals as to their effect on AUSF. Regarding the ALECA members, the difference between the plans depends, of course, on the extent to which forgone revenues are recovered through retail rates rather than through an AUSF fund. Dr. Oyefusi testified in his Reply Testimony that ALECA's proposal, which is the same as Qwest's proposal regarding access rates, combined with the proposal to recover all forgone revenues through USF funds, would be more burdensome on USF funds than AT&T's proposal (which includes partial recovery via retail rates and partial recovery via AUSF funding).[12]

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[11] Direct Testimony of Dr. Ola Oyefusi on Behalf of AT&T Communications of the Mountain States, Inc. and TCG Phoenix, *In the Matter of the Review and Possible Revision of Arizona Universal Service Fund Rules, Article 12 of the Arizona Administrative Code and In the Matter of the Investigation of the Cost of Telecommunications Access*, Before the Arizona Corporation Commission, Docket Nos. RT-00000H-97-0137 and T-00000D-00-0672, December 1, (hereafter, *Oyefusi Direct Testimony*), p. 61, footnote 68.

[12] Reply Testimony of Dr. Ola Oyefusi on Behalf of AT&T Communications of the Mountain States, Inc. and TCG Phoenix, *In the Matter of the Review and Possible Revision of Arizona Universal Service Fund Rules, Article 12 of the Arizona Administrative Code and In the Matter of the Investigation of the Cost of Telecommunications Access*, Before the Arizona Corporation Commission, Docket Nos. RT-00000H-97-0137 and T-00000D-00-0672, February 5, 2010, pp. 20-21.

Q: ARE THERE SIMILARITIES BETWEEN QWEST'S AND AT&T'S PROPOSALS?

A: Yes. Unlike ALECA's proposal, both Qwest and AT&T advocate for at least partial recovery of the LECs' forgone access revenues through increased caps on retail prices and the use of a benchmark. Both Qwest and AT&T acknowledge that at least in the short run, some revenue recovery may be necessary through an AUSF fund, but that this should be balanced with the more economically efficient mechanism of at least partial recovery through increased retail prices. ALECA, in contrast (and alone among all the parties), asserts that it is entitled to recovery of all forgone access revenues via draws from an expanded AUSF fund.

Q: PLEASE SUMMARIZE YOUR COMPARISON OF THE TWO PLANS.

A: I have summarized the key features of the plans in the following table:

	Qwest Proposal	AT&T Proposal	ALECA Proposal
Access reform is necessary and should happen now	Yes	Yes	Yes
Carriers should be permitted the opportunity to recover revenues forgone due to access reform	Yes	Yes	Yes
Intrastate access rates should be reduced for:	All LECS except Qwest	All LECS	ALECA members and possibly CLECs
ILECs' intrastate access rates should be reduced to:	Qwest's intrastate access rates	Their own interstate access rates	Qwest's intrastate access rates
CLECs' intrastate access rates should be reduced to:	Qwest's intrastate access rates	The intrastate rates of the competing ILEC in their territory	No specific proposal regarding CLECs
Access rates should be reduced:	Immediately for CLECs. Rural ILECs' rates should be reduced over a period of 1 to 3 years	Immediately	Over a period between 1 and 2 years
Forgone revenue should be recovered via:	Retail rate increases, the schedule of which will be established through a rulemaking process, combined with AUSF support	Staged retail rate increases with AUSF support initially and declining as retail rates increase	Entirely through AUSF support
Eliminates disparity between interstate and intrastate rates?	No	Yes	No
Expected reductions in call-pumping-type arbitrage?	Yes	Yes, to a greater extent than the other two proposals	Yes
Expected reduction in retail toll prices?	Muted	Greatest	Muted

AT&T's plan is superior to the Qwest plan. It generates greater consumer benefits and greater increases in efficiency. While neither plan can entirely eliminate arbitrage opportunities, AT&T's plan provides superior reductions in opportunities for call pumping arbitrage, and much superior reductions in traffic-shifting arbitrage opportunities. AT&T's plan need not require more AUSF funding than Qwest's plan—in fact, compared to ALECA's plan to recover all forgone access revenues via AUSF funding, AT&T's plan places a reduced burden on AUSF funds.

III. Response to the Reply Testimony of Don Price on Behalf of Verizon

Q: MR. PRICE OF VERIZON CALLS INTO QUESTION AT&T'S DESCRIPTION OF THE ACCESS REFORM POLICIES IN A NUMBER OF STATES, CLAIMING THAT AT&T'S PROPOSAL IS "NOT THE NORM" FOR STATES THAT HAVE PROCEEDED WITH INTRASTATE ACCESS REFORM.[13] IS THE PROPOSAL SUPPORTED BY VERIZON "THE NORM" OF ACCESS REFORM?

A: No. While I believe there is no single access reform plan that can be called "the norm" over all 34 states that have engaged in access reform over the last 15 years, I am aware of only one state that has adopted a plan akin to the one Verizon supports.[14] In contrast, there are several states that have adopted the parity requirement that ILECs must mirror

[13] *Price Reply Testimony*, p. 48 and footnote 100.

[14] That state is Maryland. Massachusetts, Ohio, and Texas require all CLECs to mirror their intrastate access rates to the intrastate rate of the largest ILEC in the state, but also require the largest ILEC to mirror its intrastate rates to its interstate rates. Hence, these plans are effectively the same as AT&T's plan with respect to ILEC rates, and are identical for CLECs that operate in the territory of the largest ILEC in the state.

their intrastate rates to their interstate rates, as in AT&T's proposal.[15] And many states have required CLECs to cap their rates at the rate of the competing ILEC in its territory, as in AT&T's proposal.[16] States that have adopted plans akin to AT&T's proposal regarding CLEC *and* ILEC rates—i.e., they require ILECs to establish parity between their interstate and intrastate rates, *and* require CLECs to cap their rates at the ILEC's rate— include Ohio, Texas, and New Jersey. In New Jersey Verizon proposed the same plan it is supporting here in Arizona and the Board of Public Utilities rejected it.[17]

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[15] Georgia (all ILECs), Indiana (major ILEC and rural ILECs), Kansas (all ILECs), Kentucky (major ILEC), Michigan (all ILECs), Nevada (major ILEC), Wisconsin (major ILEC), Mississippi (major ILEC), Tennessee (major ILEC), West Virginia (major ILEC), Ohio (all LECs), Texas (ILECs with over 4 million lines and CLECs), Maine (all LECs), New Mexico (all LECs), Massachusetts (major ILEC and CLECs), and New Jersey (all LECs). In Michigan, the mirroring requirement was imposed only on LECs with over 250,000 lines in the state until December of last year, when the legislature passed a new law that requires all LECs to mirror interstate rates over a phase-in period.

[16] Louisiana, New Hampshire, Virginia, Washington, Missouri, New York, and Pennsylvania. Washington caps only terminating rates. Missouri, New York and Pennsylvania allow for a lifting of the cap if the CLEC can demonstrate higher costs. No CLEC has done so to my knowledge.

[17] In addition, Mr. Price is incorrect in his characterization of the Wisconsin statute. The Wisconsin statute requires all price regulated LECs to reduce their intrastate rates to interstate levels, not just price-regulated carriers with over 150,000 lines. The statute provides a longer timeline for carriers with fewer than 150,000 lines to reduce their intrastate rates to their interstate levels, and does not require those carriers to reduce their CCL all the way to zero. Mr. Price is also incorrect about Indiana. While the Indiana *statute* simply has a provision that intrastate switched access rates that are in parity with interstate rates shall be deemed just and reasonable, the Indiana *commission* has ordered AT&T and rural ILECs to mirror interstate rates. See, Opinion, *Petition of Indiana Bell Telephone Company, Incorporated for Waiver of Requirements of the Orders in Cause No. 39369 and to Continue the "Instant" Mirroring of Inter-State Access Tariffs*, Before the Indiana Utility Regulatory Commission, Cause No. 43262, June 27, 2007 ("The Commission has a long history of requiring that intrastate access rates mirror interstate access rates. The policy was reaffirmed in Cause 39369 and supported by the mirroring obligations set out in AT&T Indiana's alternative regulation plans approved in 2001 and 2004. .... The practice of mirroring was most recently reaffirmed for rural local exchange carriers (RLECs) in the Commission's March 17, 2004, Final Order in Cause No. 42144").

Q: MR. PRICE INVOKES YOUR TESTIMONY IN SUPPORT OF VERIZON'S OPPOSITION TO EXPANDING THE AUSF FUND.[18] PLEASE COMMENT.

A: I agree with Mr. Price that the most economically efficient means of replacing revenue that would be forgone to ALECA members as a result of access reform would be by providing them the opportunity to increase retail prices rather than and to the exclusion of any recovery from an AUSF fund. However, from a policy perspective, I recognize that the Commission faces the pragmatic problem that it may not want to impose the entire recovery on customers in a single-stroke-increase in retail prices, because of the possible rate shock effect on the affected customers. It is efficient and, in my view, equitable, for customers to bear the costs they cause and that can only be done if, eventually, access revenues forgone are recovered entirely via increased retail rates. But if the Commission is concerned about rate shock to consumers a reasonable approach to access reform would be to reduce access rates immediately, in order to achieve the efficiency and consumer benefits I have discussed; and ease in the necessary retail rate increases, in order to limit rate shock, using the AUSF as a transitional buffer. AT&T has proposed a number of illustrations of how this gradual adjustment would work.[19]

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[18] *Price Reply Testimony*, p. 26.
[19] *Oyefusi Direct Testimony*, pp. 63-68.

IV. Response to the Reply Testimony of Douglas Garrett on Behalf of Cox Arizona Telcom

Q: MR. GARRETT OF COX OPINES THAT "SETTING A CAP [ON CLEC ACCESS RATES] WITH FLEXIBILITY TO ESTABLISH RATES MODESTLY ABOVE THE ILEC WOULD RECOGNIZE THE DIFFERENCES IN CLEC NETWORKS AND COSTS, WHILE AVOIDING THE COSTLY AND LIKELY CONTENTIOUS EXAMINATION OF INDIVIDUAL CLEC COSTS."[20] IS THIS A SOUND PROPOSAL?

A: No. There is absolutely no evidence in the record that CLECs' costs of providing switched access services are higher than ILECs' costs. If they are higher, there is no evidence that they are "modestly" higher, 10% higher,[21] or any other particular amount higher. The CLECs cannot have it both ways. If they want prices based on their costs—which, as I have explained is not consistent with sound economic principles of competition, which would lead to CLEC prices capped at the ILECs' rates—they must submit to examination of their costs in the context of a cost proceeding. If they want to avoid the scrutiny of a cost proceeding, they have no basis for proposing any arbitrary markup over ILECs' rates.

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[20] *Garrett Reply Testimony*, p. 6.

[21] Mr. Garrett references the California PUC's adoption of a CLEC rate cap at the ILEC rate + 10%. There was no evidence provided in the California case that CLECs' costs are 10% higher than ILECs' costs, and therefore whatever the reasoning behind the CPUCs' decision (which it did not provide), it could not have been justified on the basis of cost evidence.

V. Response to the Reply Testimony of Douglas Denney on Behalf of Joint CLECs

Q: DO YOU HAVE ANY OVERALL COMMENTS ON MR. DENNEY'S REPLY TESTIMONY?

A: Yes. Mr. Denney largely repeats his points from his Direct Testimony. I have responded to most of the issues Mr. Denney addresses in his Reply Testimony either in my Direct Testimony or in my Reply Testimony. Rather than reiterate these arguments, I have prepared a table, attached as Exhibit DJA-Rejoinder 2, that lists each of the arguments in Mr. Denney's Reply Testimony and points the Commission to my response to each argument in my Direct and/or Reply testimonies (and/or, in some cases, to Dr. Oyefusi's testimony). I will limit my Rejoinder Testimony only to new arguments or those that require a bit more elaboration.

Q: MR. DENNEY CLAIMS THAT QWEST'S INTRASTATE RATE IS NOT REALLY HIGHER THAN ITS INTERSTATE RATE BECAUSE THE APPARENT DIFFERENCE IS JUST A MISLEADING ARTIFACT OF DIFFERENT RATE STRUCTURES.[22] IS THAT TRUE?

A: No. It is not true. Mr. Denney's argument is that to "properly compare Qwest's interstate and intrastate access rates" requires converting Qwest's federal Subscriber Line Charge (SLC) to a per minute basis and adding it to Qwest's interstate access rate.[23]

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[22] *Denney Reply Testimony*, pp. 21-22. It is noteworthy that Mr. Denney does not even attempt to argue that *CLECs'* intrastate rates are not higher than their interstate rates.

[23] *Denney Reply Testimony*, p. 22.

This is incorrect because the federal Subscriber Line Charge is not an intercarrier access rate element. The switched access rates are the collection of wholesale rate elements charged by the LEC to IXCs for originating and/or terminating toll traffic. The SLC is a monthly fee charged by LECs *to the LECs' own end-user customers.*[24] In fact, the FCC created the SLC precisely so that the associated revenues would be *removed* from intercarrier access.[25] They were removed in order to decrease the amount of implicit subsidies contained in the interstate switched access rates and replace them with fees that are more consistent with cost causation by assessing them directly on the LECs' end users, and on a per-month rather than per-minute basis.[26]

The same should be done in the intrastate jurisdiction. As I explained in my Reply Testimony, the analog in the intrastate jurisdiction of removing implicit subsidies from the interstate access rate and recovering them through a SLC imposed on LECs' end-user customers would be to reduce the intrastate access rates and recover the forgone revenues through opportunities for increased retail prices for local exchange service.

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[24] The SLC is a fixed monthly charge levied directly by the LEC to its customers that appears on the customers' local telephone bill. See, FCC website, "What is the Subscriber Line Charge and why do I have to pay this charge?" http://www.fcc.gov/cgb/telephone.html (accessed March 1, 2010).

[25] Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report And Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45, *In the Matter of Access Charge Reform and Price Cap Performance Review for Local Exchange Carriers et al.*, Before the Federal Communications Commission, CC Docket Nos. 96-262 and 94-1 et al., FCC 00-193, (released May 31, 2000), (hereafter *FCC CALLS Order*), ¶¶ 31, 65.

[26] *FCC CALLS Order*, ¶¶ 65-68.

Q: MR. DENNEY ASSERTS THAT A BENCHMARK FOR CLEC ACCESS RATES OTHER THAN COST IS "ARBITRARY."[27] IS THE BENCHMARK PROPOSED BY AT&T—THAT CLECS' INTRASTATE ACCESS RATES BE CAPPED AT THE RATE OF THE COMPETING ILEC—ARBITRARY?

A: No, on the contrary, it is *the only benchmark proposed in this case* that is driven by economic principles. As I have explained in my Direct and Reply testimonies, in a competitive marketplace, CLECs would not be permitted by access customers to charge a rate higher than that of the incumbent with whom it competes. For regulation to mimic to the extent possible the outcome of a competitive market, the regulator would therefore cap the CLECs' intrastate access rates at the competing ILEC's level. This is exactly what the FCC ordered for CLECs' interstate access rates. From an economic standpoint, any benchmark other than the rate charged by the competing ILEC, including capping the CLECs' intrastate access rates at Qwest's intrastate rate in 1999, is arbitrary.

Q: MR. DENNEY CLAIMS THAT THE TESTIMONY PROVIDED BY THE PARTIES REGARDING THE MARKET POWER OF LECS OVER ACCESS SERVICE APPLIES ONLY TO TERMINATING ACCESS. HE THEN ARGUES THAT COMPETITION FROM IXCS CAN EFFECTIVELY DISCIPLINE ORIGINATING ACCESS RATES.[28] PLEASE COMMENT.

A: He is incorrect on both counts. I explained in my Direct Testimony the conditions that generate market power in originating and terminating access services.[29] I elaborated on the market factors that generate market power specifically in originating access in my

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[27] *Denney Reply Testimony*, p. 21.
[28] *Denney Reply Testimony*, pp. 7-8.
[29] *Aron Direct Testimony*, pp. 86-87.

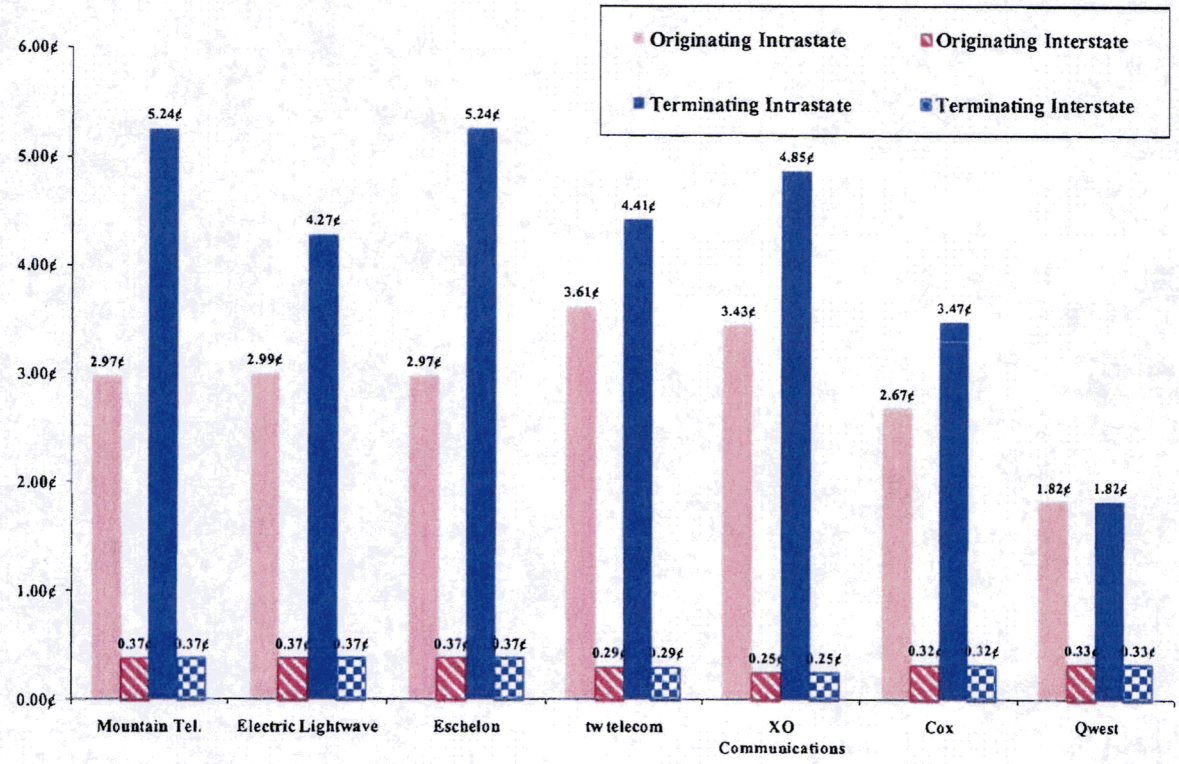
Reply Testimony[30] and will not repeat that analysis here. While Mr. Denney is correct to observe that it is appropriate to analyze market power in originating and terminating access separately, and I have done so, he is incorrect in suggesting that LECs have no market power in originating access.[31]

Q: DO CLECS' ORIGINATING ACCESS RATES APPEAR TO REFLECT MARKET POWER?

A: Yes. Figure 1 compares CLECs' intrastate originating and terminating rates to their interstate rates and to the rates of Qwest.[32] Although originating rates tend to be less than terminating rates, it is clear that there is significant market power in originating access. Intrastate originating and terminating rates are many times their interstate equivalent for all CLECs, and all CLECs' intrastate rates are higher than Qwest's.

[30] *Aron Reply Testimony*, pp. 18-19.
[31] *Denney Reply Testimony*, p. 11.
[32] For this comparison, I have replicated the methodology Mr. Denney uses in Table 1 of his Direct and Reply Testimonies to estimate LECs' average originating and terminating rates. These rates do not suffer from the problems I identified at the beginning of this Rejoinder Testimony affecting some of the CLECs' calculated rates because these estimates are based on tariffed rates rather than revenue data. I was unable to find PAETEC's tariffed interstate rates, and have therefore excluded PAETEC from this comparison.

Figure 1
Comparison of CLECs' Originating and Terminating Rates to Qwest's Rates*



* Rates computed using the methodology used by Mr. Denney in his Direct Testimony. See, *Denney Direct*, pp. 18-19.

Source: Company tariffs. In some cases the tariff was not available on the company's website, so I referenced the tariffed rates provided in discovery, in response to Staff Data Requests STF 1.1 and STF 1.21

Q: MR. DENNEY ARGUES THAT IXCS CAN DISCIPLINE EXCESSIVE ORIGINATING ACCESS RATES CHARGED BY A GIVEN LEC BY ATTRACTING THAT LEC'S CUSTOMERS TO ITS OWN LOCAL EXCHANGE SERVICE, THEREBY AVOIDING THE ORIGINATING ACCESS CHARGES ENTIRELY.[33] PLEASE COMMENT.

A: Mr. Denney's argument is not correct, for reasons relating to the inability of IXCs to adequately deaverage retail prices, as I explained in my earlier testimonies and will not repeat here. I will only point out here that if Mr. Denney's argument were correct, vertically integrated telephone providers (i.e., those that provide both local and long distance service to the same customers) would create sufficient market discipline to drive CLECs' originating intrastate access rates to at least the ILECs' intrastate levels. This has not happened. Vertically integrated telephone providers, including Verizon, Qwest, and all of the Joint CLECs, have operated in Arizona since at least 2001 and the LECs' originating intrastate rates continue to reflect market power, as I demonstrated above.

Q: HAS THE FCC RETREATED FROM ITS 2001 CONCLUSION THAT ORIGINATING ACCESS IS A MONOPOLY SERVICE?

A: No, the FCC has not indicated any retreat from its 2001 conclusion that originating access is a monopoly service,[34] and as recently as 2008 then-chairman Martin proposed

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[33] *Denney Reply Testimony*, p. 13.

[34] See, Seventh Report and Order and Further Notice of Proposed Rulemaking, *In the Matter of Access Charge Reform and Reform of Access Charges Imposed by Competitive Local Exchange Carriers*, Before the Federal Communications Commission, CC Docket No. 96-262, FCC 01-146, (released April 27, 2001), ¶¶ 29-31.

eliminating originating access charges entirely (i.e., capping them at zero) for ILECs and CLECs.[35]

Q: MR. DENNEY ARGUES THAT CLECS' ACCESS RATES DO NOT EVIDENCE MARKET POWER, BECAUSE IF CLECS HAD MARKET POWER THEIR ACCESS RATES WOULD BE EVEN HIGHER.[36] IS THIS PERSUASIVE?

A: No. Mr. Denney fails to indicate what the rates would have to be to demonstrate market power, but the reality is that in any market, even a monopolist does not charge an infinite price. Its rate is limited to some finite level not by competition, but by other factors. In the case of CLECs, these factors may include the desire to avoid attention and the associated scrutiny of regulators, and the desire to avoid litigation.

[35] See, Order on Remand and Report and Order and Further Notice of Proposed Rulemaking, *In the Matter of High-Cost Universal Service Support and Federal-State Joint Board on Universal Service et al.*, Before the Federal Communications Commission, WC Docket No. 05-337 and CC Docket 96-45 et al., FCC 08-262, (released November 5, 2008), Appendix A, ¶ 229.

[36] *Denney Reply Testimony*, p. 10.

Q: MR. DENNEY CLAIMS THAT RECIPROCAL COMPENSATION RATES ARE NOT A GOOD BENCHMARK FOR COST BECAUSE, EVEN THOUGH THEY ARE BASED ON QWEST'S COSTS, THE COST OF TERMINATING LOCAL TRAFFIC IS NOT THE SAME AS THE COST OF TERMINATING TOLL TRAFFIC.[37] PLEASE COMMENT.

A: XO, tw telecom, and Integra, as well as Cox, Qwest and MCI, acknowledged in discovery that local call termination and access services are the same functionality.[38] Dr. Oyefusi further addresses Mr. Denney's claim in his Rejoinder Testimony.

Q: MR. DENNEY ALSO CLAIMS THAT EVEN THOUGH QWEST'S RECIPROCAL COMPENSATION RATES WERE BASED ON QWEST'S COSTS, "THESE RATES HAVE NOTHING TO DO WITH THE COST INCURRED BY OTHER CARRIERS (CLECS AND RLECS) IN ARIZONA."[39] PLEASE COMMENT.

A: According to the federal rules,[40] CLECs pay reciprocal compensation rates based on the ILEC's costs unless they can prove that their own costs are higher. CLECs have therefore had the opportunity for over a decade to make a cost showing to demonstrate that their costs exceed the ILECs' reciprocal compensation rates in Arizona and they have neither claimed nor shown in this proceeding that they ever did so.

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37 *Denney Reply Testimony*, pp. 25-26.

38 Qwest's Response to Staff Data Request STF 1.24; Verizon's Response to AT&T's Data Request 2.16; XO's and tw telecom's Joint Response to Staff Data Request STF 1.24; PAETEC's Response to Staff Data Request STF 1.24; and Integra's and Cox's Responses to AT&T's Data Request 2.14.

39 *Denney Reply Testimony*, p. 26.

40 First Report and Order, *In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996 Interconnection between Local Exchange Carriers and Commercial Mobile Radio Service Providers*, Before the Federal Communications Commission, CC Docket 96-98 and CC Docket No. 95-185, (released August 8, 1996), ¶ 1089; and 47 CFR § 51.711.

Q: MR. DENNEY ARGUES THAT CLECS COULD NOT RECOVER LOST ACCESS REVENUES IN THE RETAIL MARKET IF (AS UNDER QWEST'S PROPOSAL) QWEST DID NOT HAVE TO REDUCE ITS INTRASTATE ACCESS RATES, BECAUSE THEN QWEST WOULD NOT INCREASE ITS RETAIL LOCAL RATES.[41] IS THIS A VALID ARGUMENT?

A: No. Any CLEC that cannot compete with Qwest in Qwest's territory by charging the same access rates as Qwest currently charges and the same retail rates as Qwest currently charges is inefficient and should not be rewarded with a subsidy source of income from monopoly access rates. The fact that CLECs have been permitted to charge access rates well in excess of Qwest's rates for over a decade does not provide a justification for perpetuating that inefficiency.

Q: MR. DENNEY CLAIMS THAT THE "1999 TIME FRAME" WAS WHEN "MOST" CLECS WERE ENTERING THE MARKET IN ARIZONA AND THEREFORE QWEST'S INTRASTATE ACCESS RATES WOULD HAVE BEEN "CONSIDERED" BY THE CLECS WHEN THEY WERE DECIDING WHETHER OR NOT TO ENTER.[42] PLEASE COMMENT.

A: I addressed the substance of this claim in my Reply testimony.[43] I add here that the CLECs have provided no evidence in support of any of the assertions in this claim, including no evidence of which CLECs entered when, and no evidence that Qwest's intrastate access rates played a material role (or any role) in any CLEC's entry decision.

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41 *Denney Reply Testimony*, pp. 31-32.
42 *Denney Reply Testimony*, pp. 29-30.
43 *Aron Reply Testimony*, pp. 23, 31-34, and Exhibit DJA-R2.

When asked in discovery to provide such evidence, the CLECs declined the opportunity to do so.[44]

Q: MR. DENNEY ARGUES THAT ACCESS REFORM IS A "ZERO-SUM GAME" BECAUSE REDUCTIONS IN TOLL PRICES ARE REPLACED BY INCREASES IN LOCAL SERVICE CHARGES AND USF CHARGES.[45] IS ACCESS REFORM A ZERO SUM GAME?

A: No, it is not. Access reform replaces a monopoly income stream imposed on one set of toll providers and their customers with an opportunity, but not the assurance, of earning revenues in the competitive market via retail rates. Hence, access reform is not a zero sum game because:

1. even if the amount of revenues ultimately flowing to local exchange companies were the same before and after access reform (because the reduction in access rates exactly equaled the increase in retail prices), so that it was a zero sum game *for LECs*, it would *not* be a zero sum game for Arizona citizens because it would cause an increase in economic efficiency and, as a result, social welfare, for all the reasons I explained at length in my Direct Testimony;

and,

2. the amount of revenue ultimately flowing to LECs will not necessarily be the same because it will depend on the quality of their services and their ability to compete. Some LECs will benefit and others suffer from the exposure to competition. LECs that are not able to attract customers in the retail market in competition with their rivals will not be able to increase rates as much as those that can, and their overall revenues will fall. As a result, Arizona citizens will pay less overall.[46]

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[44] See Joint CLECs' responses to AT&T's Data Request ATT 2-5.

[45] *Denney Reply Testimony*, p. 36.

[46] Mr. Denney's attempt to dismiss the peer-reviewed, published empirical evidence that rate rebalancing might even increase telephone penetration on the grounds that the study is "old" (it is based on 1980s data) is unavailing. While there are certainly some types of studies from which one cannot directly extrapolate to

Q: DOES MR. DENNEY'S CHART AT PAGE 37 SUPPORT HIS CLAIM THAT ACCESS REFORM IS A ZERO SUM GAME?

A: No. Mr. Denney's sole support for his claim that access reform is a zero sum game is a chart depicting annual price indices for telephone services. Even if the chart pertained specifically to Arizona—which it does not—it would not show anything akin to a zero sum game. The chart shows the nationwide "consumer price index" for local land-line telephone service going up over time and the nationwide consumer price index for long distance land-line service going down, with the nationwide price index for overall "telephone service" remaining roughly constant. Mr. Denney interprets the relative stability of the aggregate telephone service price index as implying that reform is a zero sum game. The price index for aggregate "telephone service," however, is not an index of wireline service. It includes wireless service, which is now a prevalent form of telephone service. If per-customer spending on wireless service has been going up—which it has, due to data services and other new service offerings[47]—the average price of wireline service would have had to go down for the overall index to be roughly constant. Hence, Mr. Denney's chart suggests that wireline service prices overall have been going down as access reform has progressed.

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current-day prices and markets, there is nothing about this study, the principles being tested, or the methodology, that would suggest that the results would not be robust to today's prices.

[47] A report from the Bureau of Labor Statistics found that annual residential expenditures for cellular phone services per consumer unit increased by 190 percent from 2001 to 2007, while expenditures for residential landline telephone and payphone services per consumer unit decreased by 30 percent. See "Consumer Expenditure Survey: Spending on Cell Phone Services Has Exceeded Spending on Residential Phone Services," Bureau of Labor Statistics, available at http://www.bls.gov/cex/cellphones2007.htm (accessed March 1, 2010).

Q: MR. DENNEY ARGUES THAT "TECHNOLOGICAL DEVELOPMENTS" SUCH AS VOIP "PROVIDE ADDITIONAL MEANS FOR AN IXC TO CONTROL ITS...ACCESS COSTS."[48] DO ALTERNATIVE TECHNOLOGIES SUCH AS VOIP LIMIT THE NEED FOR ACCESS REFORM?

A: No, they are one of the key reasons that access reform is necessary now. Mr. Denney's observation that IXCs can avoid excessive access charges by switching to VoIP illustrates the harms to economic efficiency of the currently distorted access regime: it distorts carriers' as well as consumers' choices of technology due to access rate differences that are related to arbitrary regulatory categories. Mr. Denney's suggestion that IXCs should disfavor or abandon wireline circuit switched long distance technology in favor of VoIP in order to avoid regulatory pricing distortions does not serve the public interest.

Q: MR. DENNEY CITES TO YOUR TESTIMONY AS SUPPORT FOR HIS ASSERTION THAT CLECS' ACCESS RATES SHOULD BE BASED ON CLECS' COST.[49] HAS HE ACCURATELY CITED YOUR TESTIMONY?

A: No. My testimony is that it improves social welfare to reduce ILECs' switched access rates toward the ILEC's costs, and the economically supportable standard for CLEC switched access rates is the rate of the competing ILEC. The former is true because if switched access markets were competitive they would drive ILECs' rates toward cost, and the latter is true because if switched access markets were competitive they would limit CLEC rates to the rate of the competing ILEC. The testimony cited by Mr. Denney

[48] *Denney Reply Testimony*, pp. 14-15.
[49] *Denney Reply Testimony*, p. 26.

regarding cost pertained explicitly to ILEC rates, not CLEC rates, consistent with the economic principles I just articulated.

Q: MR. DENNEY ALSO ASSERTS THAT YOUR ANALYSIS PRESENTS A "MISLEADINGLY OPTIMISTIC PICTURE OF CONSUMER BENEFITS" BECAUSE YOU DID NOT SEPARATE RESIDENTIAL AND BUSINESS MARKETS [50] AND THAT RESIDENTIAL LONG DISTANCE RATES HAVE IN FACT BEEN GOING UP, NOT DOWN.[51] IS HIS ANALYSIS VALID?

A: No. Data limitations prevented me from estimating the effects of access reform separately for residential and business customers. However, his analysis in which he purports to show that residential toll rates have been going up is not correct, for several reasons. First, the data upon which he relies are not specific to Arizona and therefore it is impossible to determine the trend of rates in Arizona from his data.

Second, the data series he depicts in his testimony is a price index and not actual, average paid prices, and suffers from well-understood limitations of price indices. For example, suppose a carrier offers pricing plan A in year 1. Then in year 2, the carrier increases the prices in plan A but introduces plan B which is much less expensive. Suppose the carrier even shifts most or all customers to plan B. The price index would nevertheless identify only the price increase associated with A, and would not capture the price decreases associated with B at all. The price indices depicted by Mr. Denney are calculated by

[50] *Denney Reply Testimony*, pp. 36 and 38.
[51] *Denney Reply Testimony*, pp. 38-40.

following base-year pricing plans and do not adjust for alternative offerings that are introduced in years between revisions to the base assumptions (and do not true-up when the base is adjusted).

Third, the price indices presented by Mr. Denney are nominal prices, not real (i.e., inflation-adjusted) prices. Since 2003, the nominal price index for residential intrastate toll service went up by 14 percent, but inflation was 17 percent, so that real prices for residential long distance service fell, even according to the index methodology.[52]

Q: MR. DENNEY SAYS YOUR ANALYSIS DOESN'T TAKE INTO ACCOUNT "THE MANNER IN WHICH AT&T SETS ITS LONG DISTANCE PRICING" BECAUSE AT&T ENGAGES IN "UNIFORM

[52] "Universal Service Monitoring Report, CC Docket No. 98-202," Federal and State Staff for the Federal-State Joint Board on Universal Service in CC Docket No. 96-45, 2009 (Data Received through August 2009), Table 7.5, and Bureau of Labor Statistics, Consumer Price Index and Producer Price Index Industry data. Mr. Denney states as an aside at footnote 105 of his testimony that Figure 5 of my Direct Testimony must have an error, because the figure shows the average revenue per minute for interstate long distance service falling in 2006 relative to 2005. This is not an error. The figures I showed are interstate toll rates including access fees and excluding universal service. My methodology for calculating these rates from the FCC tables was fully documented in my workpapers provided in discovery. In Mr. Denney's defense, however, although the methodology was fully documented, my figure in the testimony itself did contain a typo in the labeling, which should have said "Long Distance ARPM (Including Access Cost and Excluding Universal Service Cost)" instead of "Long Distance ARPM (Including Access and Universal Service Cost)." Mr. Denney also states that according to a different FCC report, interstate ARPM went up in 2007. The FCC report upon which I relied had data only through 2006, and one cannot mix and match the FCC's time series. For example, the data in the Monitoring Report, which is the report Mr. Denney references for his 2007 figure, shows rates *falling* between 2005 and 2006 for interstate calls, which is precisely the point that Mr. Denney was disputing. In any event, I would also note that all of these reports round the ARPMs to the whole cent, and the differences between the specific numbers we are talking about are one cent, so the differences Mr. Denney is focusing on are likely to be artifacts of rounding. I also note that looking at all the different versions of time series available from the FCC, they all show the same pattern of retail interstate toll prices declining in step with interstate access rates.

(ACROSS STATES) PRICING."[53] IS IT TRUE THAT YOUR ANALYSIS DOES NOT TAKE THIS INTO ACCOUNT?

A: No, this is not true. On the contrary, my analysis fully takes into account the explicit and implicit similarities and differences in AT&T's pricing policies across states.[54] Rather than assuming that customers pay the same rates in each state, I allow the data to tell me whether they do or not. I calculate the prices that customers pay by calculating the average per minute revenue. This takes into account not only the "rack rate" prices available in the market, but also discounted pricing plans, grandfathered plans, add-on plans, and other offerings. It also takes into account the fact that AT&T offers a menu of plans, but may vary its marketing strategy in some states to encourage some plans over others, or promote some discount plans more heavily in some states relative to others. As I explained in my Reply Testimony, there are many reasons that per-minute revenues may vary from state to state, and my methodology permits those differences to be captured in the analysis.

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53 *Denney Reply Testimony*, pp. 40-41.

54 Other than the ISCF, which is not included in my regression analysis upon which I reported in my Direct Testimony. Exclusion of the ISCF from the analysis means that the regression captures the effect of access rate differences on the actual revenues earned by AT&T from its menu of available pricing plans excluding ISCF revenues, and I would expect the effect on consumers of reduced access rates to be greater than the effect measured by my regression analysis.

Q: ARE AT&T'S PRICING PLANS IN FACT UNIFORM ACROSS STATES?

A: No. Dr. Oyefusi explains in his testimony that a number of AT&T's residential and business retail rate plans, including, for example, AT&T's residential Basic Rate Plan prices, are not the same from state to state.[55]

Q: MR. DENNEY SAYS YOUR DATA ARE "APPROPRIATE IN AN ACADEMIC STUDY" BUT "TOO BROAD" FOR THIS CASE.[56] PLEASE COMMENT.

A: Data are suitable for an academic study if they are accurate, unbiased, and as complete as possible. Mr. Denney's suggestion that the same qualifications would not apply to data analysis upon which this Commission is being asked to rely is profoundly incorrect and, I believe, insulting to the Commission. The data I used were proper for the use to which I put them, which was to use accepted statistical techniques to estimate the relationship evidenced across all states and several years between access rates and toll prices. Mr. Denney's suggestion that some data points should be thrown out because they do not conform to his predetermined conclusions is improper, reflects a misunderstanding of statistical inference, and does not follow any accepted research methodology of which I am aware (nor does he cite to any). Any conclusions drawn from such a truncated

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[55] Rejoinder Testimony of Dr. Ola Oyefusi on Behalf of AT&T Communications of the Mountain States, Inc. and TCG Phoenix, *In the Matter of the Review and Possible Revision of Arizona Universal Service Fund Rules, Article 12 of the Arizona Administrative Code and In the Matter of the Investigation of the Cost of Telecommunications Access*, Before the Arizona Corporation Commission, Docket Nos. RT-00000H-97-0137 and T-00000D-00-0672, March 5, 2010.

[56] *Denney Reply Testimony*, pp. 41-43.

sample would suffer from a variety of statistical defects, including bias. Nothing in Mr. Denney's comments, therefore, calls into question the validity of my research methodology or statistical techniques, nor of my conclusion that the access reform proposed by AT&T in Arizona would be expected to result in average retail intrastate toll price reductions of 19 to 42 percent.[57]

Q: MR. DENNEY CLAIMS THAT [BEGIN HIGHLY CONFIDENTIAL INFORMATION] [redacted] [END HIGHLY CONFIDENTIAL INFORMATION] HAS INTRASTATE ACCESS RATES AS LOW AS AT&T'S PROPOSAL.[58] PLEASE COMMENT.

A: Mr. Denney is mistaken. First of all, AT&T's average per minute interstate access cost is well within the range of *interstate* access rates across the 50 states, which is the relevant fact. By "AT&T's proposal," he means AT&T's interstate average expense in Arizona, which is **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** [redacted] **[END HIGHLY CONFIDENTIAL INFORMATION]** cents. But **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** [redacted] **[END HIGHLY CONFIDENTIAL INFORMATION]** cents is not a particularly low value when compared to the other interstate access rates. About 44 percent of the observations in this data set are between **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** [redacted] **[END HIGHLY CONFIDENTIAL INFORMATION]** cents and **[BEGIN HIGHLY**

[57] *Aron Direct Testimony*, p. 65.
[58] *Denney Reply Testimony*, p. 42.

CONFIDENTIAL INFORMATION] ■ **[END HIGHLY CONFIDENTIAL INFORMATION]** cents. Hence, AT&T's proposal is to reduce intrastate rates in Arizona to a level that is consistent with a large fraction of interstate rates across the country.

Second, Mr. Denney's assertion is factually incorrect. He has ignored the fact that in just the last eight months both New Jersey and Massachusetts have ordered intrastate rates lowered to interstate levels, and both of those states have interstate levels significantly *lower* than those in Arizona. In fact, the recent access reform order in Massachusetts applied to CLECs only; Verizon (the major ILEC in Massachusetts) has been mirroring its interstate rate in Massachusetts since 2002.[59] Hence, not only is Mr. Denney incorrect that "not a single state has intrastate access rates as low as AT&T's proposal," Verizon itself has been charging intrastate rates in Massachusetts that are below the rates AT&T is proposing in Arizona.

Finally, I note that the numbers reveal that the need for access reform is particularly acute in Arizona. The average intrastate rates in Arizona are nearly **[BEGIN HIGHLY CONFIDENTIAL INFORMATION]** ■ **[END HIGHLY CONFIDENTIAL**

[59] Final Order, *In the matter of Petition of Verizon New England, Inc., MCImetro Access Transmission Services of Massachusetts, Inc., d/b/a Verizon Access Transmission Services, MCI Communications Services, Inc., d/b/a Verizon Business Services, Bell Atlantic Communications, Inc., d/b/a Verizon Long Distance, and Verizon Select Services, Inc. for Investigation under Chapter 159, Section 14, of the Intrastate Access Rates of Competitive Local Exchange Carriers*, before the Commonwealth of Massachusetts department of Telecommunications and Cable, D.T.C. 07-9, June 22, 2009, p. 6.

INFORMATION] times the average interstate rates in the state, a difference that is among the highest in the country.

Q: DOES THIS COMPLETE YOUR REJOINDER TESTIMONY?

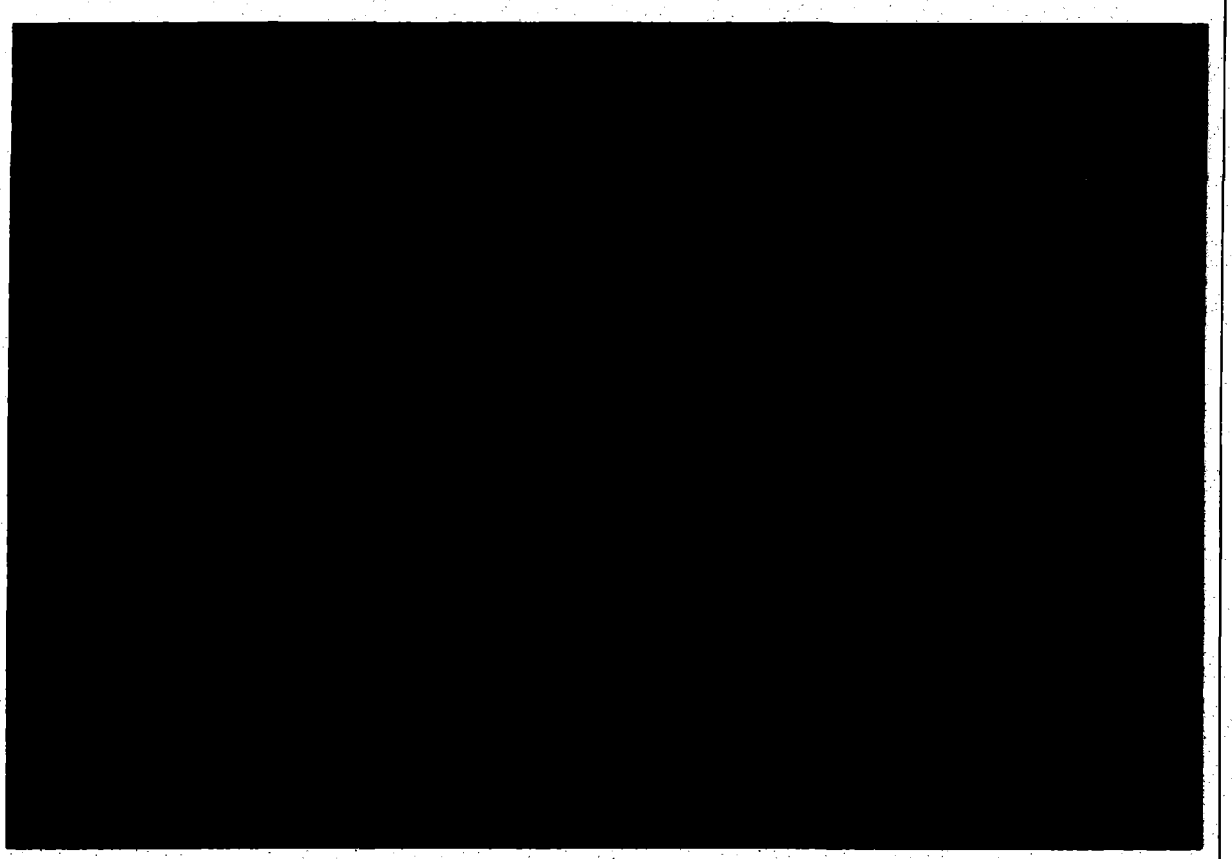
A: Yes, it does.

Arizona Corporation Commission
Docket No. RT-00000H-97-0137
Docket No. T-00000D-00-0672
DJA-Rejoinder Exhibit 1

Figure 1

Average Charges for Call Termination Services in Arizona

[BEGIN HIGHLY CONFIDENTIAL INFORMATION]



[END HIGHLY CONFIDENTIAL INFORMATION]

EXHIBIT 2:
RESPONSES TO MR. DENNEY'S ARGUMENTS

Denney argument	Denney Reply page numbers	Aron response	Aron page numbers
The comparison of interstate and intrastate rates is not "apples-to-apples" because the interstate rate should include the SLC	pp. 3, 21-22	The SLC is not an access rate: it is charged to end-user customers and was created so that the associated revenues would be removed from intercarrier access. The analog in the intrastate jurisdiction of removing implicit subsidies from the access rates and recovering them through a SLC would be to reduce the intrastate access rates and recover the forgone revenues through opportunities for increased retail prices for local exchange service	Reply, pp. 90-92 Rejoinder, pp. 21-22
Benchmarking CLEC rates to any level other than CLECs' cost is arbitrary	pp. 4, 21-30	CLECs' rates should be capped at the ILEC level because in a competitive marketplace, CLECs would not be permitted to charge a rate higher than that of the incumbent with whom it competes	Direct, pp. 86-87 Reply, pp. 23-30 Rejoinder, p. 23
Originating access is not a monopoly service because vertically integrated providers could avoid access rates entirely	pp. 5, 12-14	All LECs have market power in originating access If integrated providers could create enough market discipline, CLECs' originating rates would be at least as low as the ILEC's, which they are not	Reply, pp. 18-22 Rejoinder, pp. 23-27

EXHIBIT 2:
RESPONSES TO MR. DENNEY'S ARGUMENTS

Denney argument	Denney Reply page numbers	Aron response	Aron page numbers
Reductions in access should be gradual because CLECs need time to adjust their business plans and contracts	pp. 5, 30-34	CLECs have known since 1996 that their intrastate access rates were subject to reductions by regulators and have advised investors of this risk. Consumers should not be made to wait for the benefits of access reform because or if CLECs have not modified their business plan in anticipation of this event	Reply, pp. 32-35, 50-53, and Exhibit DJA-R2
Most CLECs were entering the market around 1999 and therefore would have considered Qwest's access rates at that time when deciding whether to enter	pp. 29-30	The CLECs have provided no evidence that they entered around 1999, nor that they considered Qwest's access rates when they entered. They refused to provide any such evidence in discovery. In addition, the CLECs have been advising their investors since at least 1997 that access rates were subject to reductions	Reply pp. 31-34, Exhibit DJA-R2, Aron Rejoinder, pp. 29-30
CLECs' access rates are (purportedly) similar to rates Qwest charged in 1999, so CLECs do not have market power	pp. 8-9, 29-30	Current CLEC access rates are higher than Qwest's current rates. The fact that CLECs have not reduced their rates in tandem with Qwest's demonstrates market power. A competitive market would not permit a competitor to charge a price that is higher than that of the incumbent	Direct, pp. 10, 36, 39 Reply, pp. 21-23, 31-34
The FCC's argument that it is unfair for CLECs to shift their expenses to IXC does not apply because CLEC rates are not excessive	pp. 9-10	CLEC rates are excessive because they are higher than the incumbents' and they are higher than their own interstate rates	Direct, pp. 10, 36, 39 Reply, pp. 21-25

EXHIBIT 2:
RESPONSES TO MR. DENNEY'S ARGUMENTS

Denney argument	Denney Reply page numbers	Aron response	Aron page numbers
CLECs' rates are not excessive because if CLECs had market power their rates would be even higher	p. 10	CLEC rates are excessive because they are higher than the incumbents' and they are higher than their own interstate rates. Even a monopolist does not charge an infinite rate	Direct, pp. 10, 36, 39 Reply, pp. 21-25
It does not matter for purposes of assessing CLECs' market power that IXCs do not have a choice at the very instance of the call	p. 12	This is a straw man. The analysis of market power is fully articulated in Aron's reply	Reply, pp. 11-19
Access distortions are less of a problem because IXCs can avoid access rates by using VoIP technology	pp. 14-15	This observation illustrates the distortions caused by the current access regime. Abandoning wireline circuit switched long distance technology in favor of VoIP in order to avoid excessive charges caused by regulation does not serve the public interest	Rejoinder, p. 32
AT&T's proposal is a "double standard" because it seeks to have CLECs alone shoulder the burden of varying long distance and access costs across all participants by denying them adequate compensation for switched access services rendered	p. 16	CLECs are not denied adequate compensation under AT&T's plan unless they are too inefficient to compete in the retail market	Reply, pp. 40-41, 47 Rejoinder, p. 29
The local loop is a "joint cost" that should be partially recovered in access rates	p. 23	The argument that IXCs are cost-causers of the costs of the loop has long been rejected by the FCC and economists. It is equivalent to arguing that IXCs are cost-causers of the cost of a telephone handset and should subsidize handset manufacturers	Reply, pp. 36-38

EXHIBIT 2:
RESPONSES TO MR. DENNEY'S ARGUMENTS

Denney argument	Denney Reply page numbers	Aron response	Aron page numbers
Reciprocal compensation rates are not a good benchmark for CLEC and RLEC access rates because it is 2-way traffic and access is one-way traffic	p. 25	No response necessary; argument has no apparent content. Access service and reciprocal compensation are the same functionality, as acknowledged by Qwest, Verizon and the CLECs in discovery	Rejoinder, p. 28
Reciprocal compensation rates are not a good benchmark for CLEC and RLEC access rates because the costs are different	pp. 25-26	Access service and reciprocal compensation are the same functionality, as acknowledged by Qwest, Verizon and the CLECs in discovery Federal rules require CLECs to charge reciprocal compensation rates based on the ILECs' costs, unless they can demonstrate their own costs are higher. No CLEC has claimed or shown that they ever demonstrated this in Arizona	Direct, pp. 84-86 Rejoinder, p. 28
Some other states allow CLECs to modify the benchmark by demonstrating cost justification	pp. 26-27	CLECs have not been able to identify a single state in which a CLEC has in fact justified higher costs	Reply, pp. 26-28
California allowed a benchmark at 10% above ILEC rates	pp. 26-27	There was no showing in California that CLECs' access costs were higher than ILECs' costs. There has also been no showing in this case that CLECs' cost are higher than ILECs' costs, so any such benchmark would be arbitrary	Reply, pp. 26-28 Rejoinder, p. 20
CLECs cannot compete with Qwest if they have to charge the same access rates and same retail rates	pp. 31-32	If CLECs cannot compete with Qwest by charging the same access and retail rates as Qwest, then they are inefficient. They should not be rewarded for being inefficient	Reply, pp. 40-41, 47 Rejoinder, p. 29

EXHIBIT 2:
RESPONSES TO MR. DENNEY'S ARGUMENTS

Denney argument	Denney Reply page numbers	Aron response	Aron page numbers
CLECs "typically" have long-term contracts with their customers and therefore may not be able to immediately increase end-user prices to compensate for lost access revenues	p. 32	According to the information provided by Mr. Denney, at least approximately half of the customers currently under contract will have rolled off within two years. This proceeding has been preceded by two years of workshops and industry discussion, so that most CLEC customers will have already rolled off of any contracts they entered into before this process began in Arizona	Reply, pp. 52-53
Access rate reductions do not help consumers because it is a zero sum game	pp. 36-38	Access reform is not a zero sum game because it would cause an increase in economic efficiency and social welfare and Arizona consumers will pay less overall if access rates are reduced In addition, the evidence provided by Mr. Denney does not support this argument	Rejoinder, pp. 30-31
Dr. Aron's analysis of the benefits of access reform for customers is flawed because she does not separate residential from business markets, and residential prices have been going up	pp. 38-40	Residential prices have not been going up. Moreover, if anything, the analysis understates the consumer benefits of access reform because it does not take into account the additional effect of eliminating the ISCF	Rejoinder, pp. 33-35
Dr. Aron doesn't account for the across-states uniform manner in which AT&T sets its long distance pricing	pp. 40-41	This is incorrect. Long distance rates across states can vary for many reasons, and the analysis captures these differences	Reply, pp. 86-88 Rejoinder, pp. 34-36

EXHIBIT 2:
RESPONSES TO MR. DENNEY'S ARGUMENTS

Denney argument	Denney Reply page numbers	Aron response	Aron page numbers
The data upon which Dr. Aron relies for forecasting toll price reductions is inappropriate	pp. 41-43	The data are appropriate for their use. It would be incorrect and counter to accepted research methods to truncate the data as Mr. Denney suggests	Rejoinder, pp. 36-37
Dr. Aron's projected savings for toll customers from the proposed access reductions are highly doubtful	pp. 43-44	Mr. Denney has not provided any evidence that the empirical analysis showing that the proposed access reform would lead to lower toll prices is invalid	Rejoinder, pp. 36-39

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES - Chairman

GARY PIERCE

PAUL NEWMAN

SANDRA D. KENNEDY

BOB STUMP

IN THE MATTER OF THE REVIEW AND POSSIBLE REVISION OF ARIZONA UNIVERSAL SERVICE FUND RULES, ARTICLE 12 OF THE ARIZONA ADMINISTRATIVE CODE.	DOCKET NO. RT-00000H-97-0137
IN THE MATTER OF THE INVESTIGATION OF THE COST OF TELECOMMUNICATIONS ACCESS.	DOCKET NO. T-00000D-00-0672

REJOINDER TESTIMONY OF

DR. OLA A. OYEFUSI

On Behalf Of

AT&T Communications of the Mountain States, Inc. and TCG Phoenix

March 5, 2010

TABLE OF CONTENTS

I. INTRODUCTION AND SUMMARY

Q. ARE YOU THE SAME DR. OYEFUSI WHO SUBMITTED DIRECT TESTIMONY ON DECEMBER 1, 2009 AND REPLY TESTIMONY ON FEBRUARY 5, 2010?[1]

A. Yes.

Q. PLEASE SUMMARIZE YOUR REJOINDER TESTIMONY.

A. As demonstrated in AT&T's and other parties' prior testimony, excessive intrastate switched access rates cause significant harm to consumers and the competitive market. AT&T has proposed a reasonable and balanced approach to resolving these problems. The Commission should i) order reduction of all ILECs' intrastate switched access rates to "parity" with their interstate rates, and ii) order all CLECs' rates to not exceed the level of the corresponding ILEC switched access charges. There is overwhelming evidence that supports such reform. The only significant disagreement is not about whether reform should occur, but which approach to reform the Commission should choose. The position of the parties can be easily divided into two main camps with respect to which target rate the Commission should adopt: (1) AT&T and Sprint, which advocate meaningful and balanced reform that would significantly reduce the subsidies in intrastate access rates and eliminate the massive disparity between interstate and

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[1] Direct Testimony of Dr. Ola A. Oyefusi on Behalf of AT&T Communications of the Mountain States, Inc. and TCG Phoenix, In the Matter of the Review and Possible Revision of Arizona Universal Service Fund Rules, Article 12 of the Arizona Administrative Code and In the Matter of the Investigation of the Cost of Telecommunications Access, Before the Arizona Corporation Commission, Docket nos. RT-00000H-97-0137 and T-00000D-00-0672, (hereafter Oyefusi Direct Testimony), December 1, 2009; and Reply Testimony of Dr. Ola A. Oyefusi on Behalf of AT&T Communications of the Mountain States, Inc. and TCG Phoenix, In the Matter of the Review and Possible Revision of Arizona Universal Service Fund Rules, Article 12 of the Arizona Administrative Code and In the Matter of the Investigation of the Cost of Telecommunications Access, Before the Arizona Corporation Commission, Docket nos. RT-00000H-97-0137 and T-00000D-00-0672, (hereafter Oyefusi Reply Testimony), February 5, 2010.

intrastate rates; and (2) those parties, led by Qwest, who advocate a weak "interim" reform that would still leave massive subsidies in intrastate rates, and still leave large differences between intrastate and interstate rates for the same access services.[2] Dr. Aron provides in her rejoinder testimony a comparison that will enable the Commission to clearly see the superiority of the AT&T-Sprint proposal over that suggested by Qwest and the other ILECs.

For the most part, the opposing parties' reply testimony simply rehashes points that I have already addressed in my Reply Testimony, and I will not repeat that testimony here.[3] Below, I address the few minor assertions that are new, mainly to ensure that the record is clear and complete. Before I proceed, however, I want to emphasize that the Commission should not lose sight of the bigger and much more important picture:

- Arizona consumers will benefit from the access reductions AT&T proposes here.
- The evidence in the record is more than sufficient for the Commission to adopt the modest reforms that AT&T has proposed and that Sprint strongly supports.
- The "not in my back yard" proposal advanced by Qwest and others would allow Qwest to escape reform and therefore exempt the state's largest LEC (and the majority of access traffic) from reform altogether.
- The CLECs' strategy is to avoid, obscure and confuse the issues that are the focus of this proceeding.

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[2] The CLECs' issues are secondary to this policy determination, and can be simply resolved by following economic principle and capping the CLECs' rates at whatever rates levels are decided for the ILECs with which the CLECs compete.

[3] See OAO Rejoinder Exhibit-1 - Table matrix referencing prior responses.

Q. DO YOU HAVE ANY GENERAL COMMENT ABOUT THE ACCURACY OF DATA SOME PARTIES HAVE PRESENTED IN THIS PROCEEDING?

A. Yes, I share the same concern Dr. Aron explains in her accompanying rejoinder testimony: that the average composite intrastate switched access rates presented by parties in this case were not calculated using a consistent methodology, thus rendering impossible any reliable comparison to gauge the relative rates disparity especially between the CLECs and the ILECs. AT&T has requested additional data to attempt to resolve these inconsistencies. As of the writing of the testimony, however, some parties have not responded or cooperated. To the extent this process reveals that there should be corrections to any of the figures presented in my testimonies, I will file the appropriate corrections.

II. RESPONSE TO THE REPLY TESTIMONY OF DON PRICE ON BEHALF OF VERIZON

Q. MR. PRICE CLAIMS YOU MISCHARACTERIZED CERTAIN STATES' "PARITY REQUIREMENTS" AND THAT "....TYPICALLY, THERE IS NO PARITY REQUIREMENT, OR TO THE EXTENT THERE IS, IT IS BECAUSE THE STATE'S LARGEST LEC HAS EITHER BEEN ORDERED TO, OR AGREED TO, TAKE ITS INTRASTATE ACCESS RATES DOWN TO INTERSTATE LEVELS (BUT OTHER LECS IN THE SAME STATE HAVE NOT DONE SO)"[4] HOW DO YOU RESPOND?

A. I have two responses. First of all, I did not mischaracterize the states' requirements. Mr. Price points out that some states adopted "parity" requirements for the largest ILEC, but not for smaller ILECs or CLECs. While this is true, it is not news: I indicated in my detailed summary, attached to my Direct Testimony (i.e. OAO_Exhibit F), which states

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[4] Reply Testimony of Don Price on Behalf of Verizon, In the Matter of the Review and Possible Revision of Arizona Universal Service Fund Rules, Article 12 of the Arizona Administrative Code and In the Matter of the Investigation of the Cost of Telecommunications Access, Before the Arizona Corporation Commission, Docket nos. RT-00000H-97-0137 and T-00000D-00-0672, (hereafter Price Reply Testimony), February 5, 2010, p.48

apply parity requirements to all ILECs, some ILECs, all LECs, CLECs only, and so forth. Mr. Price attempts to provide an example of my purported mischaracterization, asserting that the "Wisconsin statute only requires price-regulated carriers with more than 150,000 access lines to cap their intrastate switched access rates at their interstate levels, but does not require this for all LECs." [Citing Ch. 196.196(2)(b)1, Wis, Stats.]. Mr. Price is not correct. Wisconsin requires all price regulated LECs to reduce their intrastate access rates to interstate levels, but those with fewer than 150,000 access lines are allowed a longer time period to make the reductions and do not have to reduce their CCL rate to zero. Mr. Price also claims that "Indiana does not require mirroring of interstate rates. Indiana statute simply provides that intrastate switched access rates that *mirror the provider's interstate rates* shall be deemed just and reasonable." [Citing Ind. Code § 8-1-2.6-1.5]. This, too, is incorrect. The Indiana Commission has in fact ordered AT&T Indiana and rural LECs to mirror interstate rates.[5]

Second, and more important, I am surprised that Mr. Price would emphasize the fact that some states have adopted parity requirements for the largest ILEC but not for all LECs, because that statement actively undermines his client's position in this proceeding and supports AT&T's proposal. Here, Verizon is not contending that the Commission should adopt access reform for the state's largest ILEC while exempting smaller ILECs (as some states have done). In fact, Verizon is taking the exact opposite approach and proposing that the Commission adopt limited reforms for small carriers while exempting

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[5] Opinion, *Petition of Indiana Bell Telephone Company, Incorporated for Waiver of Requirements of the Orders in Cause No. 39369 and to Continue the "Instant" Mirroring of Inter-State Access Tariffs*, Cause No. 43262, June 27, 2007.

Qwest, which is by far the state's largest ILEC, from any reform.[6] Further, Mr. Price ignores the more important fact: many states have agreed with AT&T that "parity" between interstate and intrastate rates is an appropriate reform. While some states have implemented that reform on a carrier-by-carrier basis (focusing on large ILECs first) this Commission has all Arizona carriers before it now, and it would make no sense to waste this opportunity (particularly given the age of these dockets) by implementing piecemeal reforms.

Dr. Aron also notes in her rejoinder that only 1 out of 34 states that have engaged in access reform (i.e. Maryland) has supported the weak reform proposed by Verizon here. Mr. Price has failed to recognize that many states have adopted reforms based on AT&T's suggested approach of interstate-intrastate parity, and only one has adopted reforms similar to Verizon's approach.

III. RESPONSE TO THE REPLY TESTIMONY OF DOUGLAS DENNEY ON BEHALF OF JOINT CLECS

Q. IN YOUR PRIOR TESTIMONY, YOU DISCUSSED THE FCC'S TRANSITIONAL RATE OF $0.0007 FOR CALL TERMINATION. MR. DENNEY ARGUES THAT YOUR CHARACTERIZATION OF THE FCC'S RATE AS "COST BASED" WAS INCORRECT. WHAT IS YOUR RESPONSE?

A. I stand by my testimony. The FCC's statement (which I quoted with adequate reference for verification) is clear on this matter: the FCC did not say that the $0.0007 rate was set *precisely* at cost, but rather said that the rate *exceeds* cost. The function of terminating intrastate long-distance calls is identical in all material respects to terminating local calls. AT&T is proposing that the ILECs' intrastate rates be reduced to the level of their

[6] In any event, Mr. Price also notes that the Wisconsin Commission is in the process of investigating smaller LECs, so his argument is moot.

interstate rates, and that CLEC rates should in turn be "capped" at the level of the ILEC rates.[7] In all instances, the LECs' interstate access rates exceed $0.0007 per minute. So if the Commission adopts AT&T's proposal, as it should, ILEC and CLEC access rates will be more than sufficient to recover cost.

Q. MR. DENNEY STATES YOU AGREE THAT THE SECTION 254(G) GEOGRAPHIC AVERAGING REQUIREMENT APPLIES ONLY TO INTERSTATE, AND NOT INTRASTATE RETAIL TOLL PRICES, AND THEREFORE IXC'S LACK OF DEAVERAGING IS A MATTER OF CONVENIENCE IMPLYING THAT IT CANNOT BE A LEGITIMATE SOURCE OF MARKET POWER.[8] HOW DO YOU RESPOND?

A. Mr. Denney's argument is both incorrect and goes nowhere in any event. First, I am advised by counsel that the federal geographic averaging requirement in Section 254(g) of the Telecommunications Act of 1996 applies to both interstate and intrastate long distance prices.[9]

Second, my point is that even if there were no geographic averaging requirement on intrastate long distance prices, other factors impede the normal functioning of the

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[7] If both actions occur simultaneously, this essentially means the CLECs cannot charge more than their interstate rates pursuant to the FCC's capping requirements for CLECs' interstate switched access rates.

[8] Denney Reply Testimony at pages 16-17.

[9] See, Report and Order, Policy and Rules Concerning the Interstate, Interexchange Marketplace and Implementation of Section 254(g) of the Communications Act of 1934, as amended, before the Federal Communications Commission, FCC 96-331, (released August 7, 1996), (IXC Marketplace Implementation Order),¶ 9. The paragraph cited says the rule applies "to all providers of interexchange telecommunications services and to all interexchange telecommunications services.'" Additional support can be found in that same document at paragraph 7 ("We noted that the 1996 Act applies to all providers of intrastate and interstate interexchange telecommunications services"), paragraph 42 ("We noted in the NPRM that, although the statute requires the Commission to adopt rules to require geographic rate averaging for intrastate and interstate interexchange services, the statute does not appear to foreclose consistent state action in this area. We noted that the Senate Report states that 'States shall continue to be responsible for enforcing [intrastate geographic rate averaging], so long as the State rules are not inconsistent with' the regulations the Commission adopts."), and paragraph 46 ("we find, as proposed in the NPRM, that states are free to establish intrastate rates, as long as they are not inconsistent with the rules we adopt in this proceeding.")

market to discipline prices and there would nevertheless remain the ability of all LECs to exercise market power over both originating and terminating intrastate switched access rates. I reiterate the reasons briefly. First, IXCs do not choose which local carriers will originate or terminate their end users' calls -- the end users do -- and the IXCs cannot block their end users' calls or force their end users to choose a different local carrier or to not choose a CLEC. Second, IXCs cannot send the proper "price signal" to end users by charging a different long-distance price for each call based on which local carrier serves the end user that makes the call and which local carrier serves the end user that receives the call. In other words, IXCs cannot charge a high price when the end user at either end of the call chooses a local carrier with high access charges, which would encourage end users to either choose a different and less expensive local carrier or make fewer calls. Instead, IXCs "average" their long-distance prices to reflect average access costs for all of the LECs to whom they deliver traffic.

One reason that IXCs geographically average prices is because, according to legal counsel, federal law (i.e., 47 U.S.C. 254(g)) *requires* them to do so. Even if that legal requirement was removed for intrastate long distance prices, and it is not, my point remains that there are practical and pro-consumer reasons for doing so. It would be nearly impossible for IXCs to create and then maintain billing systems that charge different retail prices based on the virtually infinite possible combination of LECs that the end users at each end of every possible call might choose – and then update those prices every time any LEC changes its access rates. More importantly, consumers would not accept a pricing regime whereby the price of their long distance calls varied depending on which Local Exchange Carrier served the person they were calling. Mr.

Denney has not provided any discussion, analysis, or theory that refutes these practical considerations, because he cannot.

Mr. Denney's second argument is that geographic averaging is good for the public interest. I agree with him, but I don't see how that responds to my testimony. If anything, he has provided one more reason why CLECs have market power over the originating access charges they impose on IXCs. In any event, AT&T has not contended that geographic averaging is or is not in the public interest, so it is not necessary to address this newly injected issue.[10] What is important is that geographic averaging exists, as both a legal and practical necessity, regardless of its merits or demerits and, as I have explained in previous testimony, it is among the reasons market forces alone cannot discipline the CLECs' ability to charge excessive access rates. That fact remains undisturbed by any of Mr. Denney's newly injected and irrelevant arguments.

HAVE OTHER STATES AGREED WITH YOU AND DR. ARON THAT CLECS HAVE MARKET POWER OVER ORIGINATING AND TERMINATING SWITCHED ACCESS SERVICE?

A. Yes. Dr. Aron and I have testified, and virtually everyone but the CLECs agree, that the CLECs wield monopoly power with respect to intrastate switched access service, and therefore their switched access rates should be constrained. For obviously self-serving reasons, the CLECs disagree, but they have not provided any convincing analysis or evidence to support that objection.

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[10] The injection of the issue that geographic averaging provides public interest benefit is inappropriate. AT&T has not argued that the geographic averaging requirement should be abolished, and if it would, this is not the right forum to do so.

This debate is not new and the CLECs and IXCs have presented the same issue in other forums (e.g. the FCC and other state commissions). Repeatedly, where the same arguments have been made, the reviewing authorities have agreed with AT&T's conclusion here, that CLECs wield market power, and they have constrained the CLECs' switched access rates.

For example, last year in Massachusetts, some of the CLECs represented today by Mr. Denney made the same arguments as Mr. Denney advances here.[11] The Massachusetts commission rejected those claims that the CLECs do not have market power, and ordered CLECs' rates to be capped at the rates of the major ILEC, Verizon. According to the Massachusetts Department of Telecommunications and Cable,

- Evidence strongly shows that CLECs have market power in providing intrastate switched access service. The unique market characteristics of switched access make it virtually impossible for competition to exist. These same conditions prompted the FCC to cap CLEC rates for interstate switched access in 2001.[12]
- Given the clear structural failure of the access market with regard to terminating charges, the Department finds that the lack of competitive forces has given CLECs market power. The Department similarly finds that in the originating market, the failure of existing competitive forces to discipline rates results in CLECs having market power. The presence of market power overcomes the presumption that CLEC rates are just and reasonable when determined by market forces.[13]

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[11] Mr. Denney and the CLECs have not identified a single state that has agreed with their arguments that CLECs do not have market power, because there is none.

[12] Final Order, *In the Matter of Petition of Verizon New England, Inc., MCImetro Access Transmission Services of Massachusetts, Inc., d/b/a Verizon Access Transmission Services, MCI Communications Services, Inc., d/b/a Verizon Business Services, Bell Atlantic Communications, Inc., d/b/a Verizon Long Distance, and Verizon Select Services, Inc. for Investigation under Chapter 159, Section 14, of the Intrastate Access Rates of Competitive Local Exchange Carriers*, before the Commonwealth of Massachusetts Department of Telecommunications and Cable, D.T.C 07-9, (hereafter *2009 Massachusetts Order*), June 22, 2009, p. 9.

[13] *2009 Massachusetts Order*, p. 17. (Citations omitted.)

Similarly, in an order released just last month, the New Jersey Board of Public Utilities reached similar conclusions, despite the CLECs (some of which are involved in this proceeding) telling the New Jersey Board that the FCC decision was no longer relevant, and that the Massachusetts Department got it wrong. The Board was not convinced. It found that

- [S]witched access service is a monopoly because there is no ability for an IXC or its customers to avoid excessive access charges. The Board concurs with Sprint's argument that LECs have a monopoly over access to their end users, which has permitted a situation where CLECs have charged access rates well above the rates that ILECs charge for similar services.[14]

> [T]here is no material difference in the functionalities used to provide interstate and intrastate switched access and, as a result, any disparities in the Intrastate and Interstate Access Rates should be eliminated. Additionally, the CLECs and ILECs in New Jersey have been charging interstate rates and using interstate rate structures for all interstate calls in New Jersey since the FCC issued its CLEC Rate Cap Order. ... [T]he FCC's approach has been successful and the FCC has not since changed its approach to the pricing of Interstate Access Rates. ... [T]here is no evidence that interstate access rates capped by the FCC eight years ago have caused any CLEC to exit the market.[15]

In short, Mr. Denney cannot identify a single state that shares his views, either on the FCC's order or on the broader subject of CLEC market power. Like the FCC and other states have done, this Commission should reject the CLECs' arguments.

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[14] *New Jersey BPU Order at page* 27.
[15] *Id.*

IV. ARIZONA CONSUMERS WILL BENEFIT FROM A REDUCTION IN INTRASTATE SWITCHED ACCESS RATES.

Q. SOME LECS QUESTION WHETHER REDUCTIONS IN SWITCHED ACCESS RATES WILL BENEFIT CONSUMERS. ARE THEY CORRECT?

A. No. Dr. Aron has discussed this in detail, so I would only add that in addition to the evidence she previously presented, AT&T has stated that if the Commission adopts AT&T's proposal,[16] AT&T will eliminate its monthly In-State Connection Fee and also reduce the extra charges assessed on intrastate calls made using its Prepaid Cards.

Q. MR. DENNEY CLAIMS AT&T'S PRICING PLANS ARE UNIFORM ACROSS STATES, SO CONSUMER BENEFIT IS NOT LIKELY. DOES AT&T OFFER THE SAME PLANS ACROSS STATES SUCH THAT THERE ARE NO UNIT PRICE DIFFERENCES TO REFLECT DIFFERENCES IN SWITCHED ACCESS EXPENSES?

A. No. While I have not exhaustively reviewed the entire menu of calling plans offered by AT&T, I have reviewed the Consumer Basic plan and the Business All in One plan and my research shows that the Basic and All in One plans' prices are not the same from state to state.[17] I have presented the results of my research of these plans in OAO Rejoinder Exhibit-2.[18]

Q. DOES THIS COMPLETE YOUR REJOINDER TESTIMONY?

A. Yes, it does.

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[16] Some parties appear to have misunderstood AT&T's proposal. To avoid further confusion, I reiterate as follows: i.e. decrease all ILECs' rates to their corresponding interstate levels and at the same time cap the CLECs' rates to not exceed those charged by the ILECs with which the CLECs compete.

[17] Dr. Aron's consumer benefit analysis relies on AT&T's intrastate toll revenue which included total revenues from all calling plans, and therefore those revenues reflected the differences in calling plans across states.

[18] I have provided in OAO Rejoinder Exhibit-3 instructions and links to access these plans. Examples of other plans with varying prices across states include: For Business - AT&T Business Network Service, AT&T Pro WATS/Plan Q Service, AT&T CustomNet Service, Toll-Free Megacom Service; these plans can be found in the Custom Network Services tariff which can be found using the same instructions. For Consumer – One Rate USA, Intralata overlay, Intralata overlay II, Schedule Y (e.g. true reach plan), Schedule Z (e.g. Reach Out America), Instate overlay.

AT&T RESPONSE TO SELECTED STATEMENTS OF OTHER PARTIES

FILING ENTITY	WITNESS	CITE	STATEMENT	AT&T Response	
				CITE	STATEMENT
ALECA	Meredith	Reply p.11:16-20	. . . establishing a revenue benchmark is not necessary to begin intrastate switched exchange access reform in Arizona. A *revenue neutral* shift of revenues from intrastate access to a high-cost universal service fund provides for expedited reform, without adding complications related to establishing a benchmark.	Oyefusi Direct pp. 51-55	Permitting local exchange carriers to recover the entirety of the access revenue reduction permits carriers to continue to shift unnecessary levels of support from their end-users to other consumers. Customer benefit is maximized when all consumers rates are targeted to an equitable benchmark, above which AUSF support is appropriate.
Cox	Garrett	Reply p.2:20-22	Cox believes that any state plan needs to allow for variations in CLEC access rate structure from ILEC access structure and to allow reasonable variations in CLEC rates from ILEC rates.	Oyefusi Direct pp.23 - 24; See also Oyefusi Reply pp.22-28.	CLECs should not be given any preferential treatment, they wield market power just like the ILECs with respect to the provision of switched access service. No reasonable justification for the variations Cox is seeking.
		Reply p.3:26-4:2	Cox argue that CLECs should be allowed (i) a transition period to implement any access reform (ii) mechanisms and procedures to recoup lost revenues, (iii) potential opportunities and procedures for CLECs to have intrastate access rates *above the incumbent* LEC rate	Oyefusi Direct p. 72-73; See also Oyefusi Reply p.24	There is no need for any delay, CLECs' rates have been capped for interstate switched access since 2001, and they have been aware that reform was likely. Also, CLECs should be allowed adequate flexibility or opportunities to recover forgone revenues through retail rate increases. CLECs have not had historical universal service obligations, and therefore should not draw any USF fund.

OAO REJOINDER EXHIBIT-1

FILING ENTITY	WITNESS	CITE	STATEMENT	AT&T Response	
				CITE	STATEMENT
Joint CLECs	Denney	Reply p.8:3-14	Claims that IXCs only contend that IXCs have no alternative when terminating a call to a LEC customer, and that this argument makes no sense in the context of originating access.	Oyefusi Direct 23:14-22; See also Oyefusi Rejoinder pp. 8-12.	This is incorrect. AT&T has explained in detail the factors that impede market forces from disciplining switched access rates for both call termination and origination.
Joint CLECs	Denney	11:17-12:6	Based on my review, Dr. Oyefusi (AT&T) is the only witness who argues that an IXC does not have a choice when terminating or originating a call, but even he recognizes that CLEC rates are constrained when he states, "If left on their own, the CLECs have an incentive to increase access rates as much as they can." Given that the Joint CLEC intrastate access rates are significantly below the intrastate access rates of other LECs in Arizona, it is clear that CLECs do not have the market power to increase rates as much as they can.	Oyefusi Direct p.29:21-30:18; Oyefusi Rejoinder pp. 10-12; See also Aron Rejoinder, section V.	Mr. Denney's concept is flawed. It does not matter that CLECs have not chosen to charge rates that are infinitely higher than the ILECs' access charges, CLECs have market power even if their access rates exceed the ILECs' access fees by only a small percent. Such differential (even a small one) cannot be sustained if market forces were not impeded by the factors we have articulated in AT&T testimonies. Mr. Denney is also wrong that no one else shares Dr. Oyefusi's view, the FCC and other states have reached the same conclusions.
Joint CLECs	Denney	15:1-12	Claim that since AT&T can use VoIP technology, it should mean that AT&T can avoid the CLECs' high access charges by winning the CLECs' consumers.	Aron Rejoinder, section V.	This is incorrect. Carriers' choice of one technology over another should be based only on merit, but not because they want to avoid artificial distortions caused by CLECs' exercise of their market power.
Joint CLECs	Denney	16:5-8	Dr. Oyefusi admits that this federal regulation concerns interstate toll rates, and that on the intrastate side IXCs offer geographically averaged rates "as a practical matter... to enable uniformity in billing." In other words, IXCs charge uniform intrastate toll rate to cut their own billing cost.	Oyefusi Direct 21:13-20; See also Oyefusi Rejoinder pp. 8-10.	Geographic averaging occurs 1) pursuant to section 254(g) of the Telecommunications Act of 1996 which applies to both interstate and intrastate long distance prices, and 2) as a practical matter, even if that legal requirement was removed. The point is that other factors impede market forces from functioning properly, and all LECs are nevertheless able to exercise market power over both originating and terminating switched access charges.
Joint CLECs	Denney	16;9	The prohibition of geographic de-averaging of toll rates has been implemented to serve the public interest at large; apparently, the lawmakers found it appropriate to spread the burden of varying long-distance and access cost across all participants in the market.	Oyefusi Rejoinder p.10.	It is not clear how Mr. Denney's public interest discussion responds to my testimony. If anything, he has provided one more reason why CLECs have market power over the originating access charges they impose on IXCs.

OAO REJOINDER EXHIBIT-1

FILING ENTITY	WITNESS	CITE	STATEMENT	AT&T Response	
				CITE	STATEMENT
Joint CLECs	Denney	16:16-17:6	. . . while Dr. Oyefusi complains that (the geographically averaged) AT&T toll prices in Arizona are lower than access rates of "some" Arizona LECs, he fails to acknowledge that this result is a direct consequence of the geographically averaged rate design. When a toll price is set based on average cost, some data points that compose this average would be above, but others would be below the toll price. Indeed, if AT&T statewide toll price were set to cover access cost associated with all LECs, including LECs with the highest access rates, AT&T would be collecting abnormal profits from calls associated with "average" and "below average" LECs.	Oyefusi Direct p.21; See also Oyefusi Rejoinder pp.9-10.	Mr. Denney's statement appears to relate to his public interest discussion referenced above. I have articulated the facts about geographic averaging, particularly that IXCs cannot send the proper "price signal to end users by charging a different price for each call based on which local carrier serves the end user that receives the call.
Joint CLECs	Denney	21:8-12	. . . there has been no substantive evidence presented in this proceeding that CLEC access rates are excessive or are not just and reasonable. The only "evidence" that parties typically cite (without regard to a particular group of carriers) are the generic complaints that intrastate access rates are higher than interstate rates.	Oyefusi Direct pp.23-24; See also Oyefusi Rejoinder p.9.	This is incorrect. AT&T has demonstrated in greater detail that the CLECs access rates are excessive and not just and reasonable, and one of the major reasons is that CLECs wield market power and have been able to sustain access charges at levels that would not be forth coming in a competitive market when market forces are not impeded from disciplining prices. As a result CLECs today charge intrastate access rates that are many times higher than their charges for their interstate or the ILECs' switched access services which generally involve the same functions.
Joint CLECs	Denney	17-20	Wireless rates should be increased.	Oyefusi Reply pp. 28-29	It is not appropriate to raise a cost-based rate, such as the intraMTA rate, to a subsidy rate, such as intrastate switched access charges. In any case, this matter should not be addressed in this proceeding.
Joint CLECs	Denney	24:7-13	Mr. Denney claims Dr. Oyefusi's characterization that the FCC's $0.0007 rate for call termination as cost-based was incorrect.	Oyefusi Direct 44:10-45:4; See also Oyefusi Rejoinder p.7.	I stand by my prior testimony, and I have provided adequate reference to enable verification of the FCC's statement which I quoted. My point remains that the FCC said the $0.0007 rate exceeds cost, and since the function of terminating intrastate long-distance calls is identical in all material respects to terminating local calls and the ILECs' rates at which the CLEC's intrastate rates will be capped are higher than the $0.0007, the AT&T proposal will result in compensatory rates for the CLECs.

OAO REJOINDER EXHIBIT-1

FILING ENTITY	WITNESS	CITE	STATEMENT	AT&T Response	
				CITE	STATEMENT
Joint CLECs	Denney	pp. 25-26	Reciprocal compensation is not a good "benchmark" for CLECs and RLECs access rates for a number of reasons.	Oyefusi Direct 44:10-45:4; See also Oyefusi Rejoinder pp.7-8.	This statement is related to the one I discuss above. AT&T has not suggested that the CLECs' (or RLECs') switched access rates be capped at the $0.0007 reciprocal compensation level. Rather, CLECs' access rates should be capped at the level of access rates charged by the ILECs with which the CLECs compete, and the RLECs' and Qwest's intrastate access rates should be at parity with their corresponding interstate rates. Therefore, Mr. Denney's argument is moot.
Verizon	Price	46:7-12	Verizon neither shares AT&T's willingness to allow at least partial recovery of access revenues foregone as a result of Commission-ordered rate reductions from the AUSF (which would require increasing the AUSF), nor supports AT&T's proposal to require all LECs in Arizona to mirror their interstate rates.	Oyefusi Direct pp. 51-71; See also Oyefusi Reply pp.34-39.	AT&T has proposed a more balanced and reasonable approach to transition the current retail prices of the ILECs (which have been intentionally set low for universal service goal) to begin to resemble more efficient systems that reflect consumer preferences for newer services and technologies; and that may require allowing some ILECs limited drawing from the AUSF.

IA	$0.3300				
IN		$0.3000	$0.4000	$0.2800	
KY		$0.3200	$0.3700		$0.2900
LA	$0.3300				
MS	$0.3300				
MO		$0.3900	$0.4200	$0.3300	
NC	$0.3300				
NE		$0.2600	$0.2600	$0.2600	
ND		$0.4200	$0.4500	$0.3900	
NV		$0.3100	$0.4200		$0.2600
OH	$0.3300				
OR	$0.3300				
PA	$0.3300				
SC	$0.3300				
SD		$0.3800	$0.4400		$0.3500
TN	$0.3300				
TX		$0.3100	$0.4000		$0.2600
WA		$0.3500	$0.3700		$0.2500
WV		$0.1900	$0.1900	$0.1900	
WY	$0.3300				

Business All In One Service - Sample of Basic Rate Plans

	Rate Table A-IntraState		Rate Table B-IntraState		Rate Table C-IntraState		Rate Table Multi-Saver-IntraState	
	Basic	Connected	Basic	Connected	Basic	Connected	Basic	Connected
	InterLATA	InterLATA	InterLATA	InterLATA	InterLATA	InterLATA	InterLATA	InterLATA
State	DD	DD	DD	DD	DD	DD	DD	DD
AL	0.2400	0.1400	0.2380	0.1450	0.0990	0.0670	0.0690	0.0670
AR	0.2700	0.1800	0.2680	0.1850	0.1380	0.0700	0.1080	0.0700
AZ	0.2380	0.1790	0.2380	0.1690	0.1380	0.0660	0.1080	0.0660
CA	0.2780	0.1500	0.2580	0.1550	0.0800	0.0500	0.0500	0.0500
CO	0.3190	0.2290	0.3170	0.2140	0.1280	0.0560	0.0980	0.0560
CT	0.2600	0.1500	0.2580	0.1550	0.1200	0.0820	0.0900	0.0820
DC	0.2600	0.1500	0.2580	0.1550	0.0900	0.0600	0.0600	0.0600
DE	0.2600	0.1500	0.2580	0.1550	0.0900	0.0600	0.0600	0.0600
FL	0.2580	0.1400	0.2560	0.1450	0.1190	0.0670	0.0890	0.0670
GA	0.2580	0.1400	0.2560	0.1450	0.0990	0.0670	0.0690	0.0670
HI	0.2600	0.1700	0.2580	0.1750	0.0980	0.0600	0.0680	0.0600
IA	0.3190	0.2290	0.3170	0.2340	0.1410	0.0570	0.1110	0.0570
ID	0.2900	0.2000	0.2880	0.2050	0.1410	0.0610	0.1110	0.0610
IL	0.2780	0.1500	0.2760	0.1550	0.0800	0.0500	0.0500	0.0500
IN	0.2780	0.1500	0.2760	0.1550	0.0800	0.0500	0.0500	0.0500
KS	0.3190	0.2290	0.3170	0.2140	0.1000	0.0700	0.0700	0.0700
KY	0.2400	0.1600	0.2380	0.1650	0.0990	0.0670	0.0690	0.0670
LA	0.2400	0.1600	0.2380	0.1650	0.0990	0.0670	0.0690	0.0670
MA	0.2780	0.1500	0.2760	0.1550	0.0900	0.0600	0.0600	0.0600
MD	0.2780	0.1500	0.2760	0.1550	0.0900	0.0600	0.0600	0.0600
ME	0.3200	0.2300	0.3180	0.2350	0.0900	0.0600	0.0600	0.0600
MI	0.2580	0.1400	0.2560	0.1450	0.0800	0.0500	0.0500	0.0500
MN	0.2870	0.1970	0.2850	0.1840	0.1270	0.0550	0.0970	0.0550
MO	0.3190	0.2090	0.3170	0.2140	0.1560	0.0710	0.1260	0.0712
MS	0.2400	0.1600	0.2380	0.1650	0.0990	0.0670	0.0690	0.0670
MT	0.3000	0.2100	0.2980	0.2150	0.1510	0.0590	0.1210	0.0590
NC	0.2400	0.1400	0.2380	0.1450	0.0990	0.0670	0.0690	0.0670
ND	0.3100	0.2200	0.3080	0.2250	0.1860	0.0800	0.1560	0.0800
NE	0.3100	0.2200	0.3080	0.2050	0.0990	0.0500	0.0690	0.0500
NH	0.2600	0.1700	0.2580	0.1750	0.1000	0.0600	0.0700	0.0600
NJ	0.2780	0.1500	0.2760	0.1550	0.0900	0.0600	0.0600	0.0600
NM	0.3290	0.2390	0.3270	0.2440	0.1440	0.0590	0.1140	0.0590
NV	0.2600	0.1700	0.2580	0.1750	0.0900	0.0520	0.0600	0.0520
NY	0.2780	0.1500	0.2500	0.1550	0.0900	0.0600	0.0600	0.0600
OH	0.2780	0.1500	0.2760	0.1550	0.0800	0.0500	0.0500	0.0500
OK	0.2400	0.1600	0.2380	0.1650	0.1000	0.0700	0.0700	0.0700
OR	0.2600	0.1500	0.2580	0.1550	0.0800	0.0500	0.0500	0.0500
PA	0.2780	0.1500	0.2760	0.1550	0.0930	0.0600	0.0630	0.0600
PR	0.2700	0.1800	0.2680	0.1850	0.1000	0.0700	0.0700	0.0700
RI	0.2830	0.1790	0.2810	0.1840	0.0900	0.0600	0.0600	0.0600
SC	0.2990	0.2190	0.2970	0.2240	0.0990	0.0670	0.0690	0.0670
SD	0.2990	0.2190	0.2970	0.2240	0.1860	0.0800	0.1730	0.0980
TN	0.2400	0.1400	0.2380	0.1450	0.0990	0.0670	0.0690	0.0670
TX	0.3500	0.2090	0.2820	0.1710	0.1110	0.0700	0.0810	0.0700
UT	0.3090	0.2290	0.3070	0.2140	0.0860	0.0500	0.0560	0.0500
VA	0.2600	0.1500	0.2580	0.1550	0.1030	0.0600	0.0830	0.0600
VT	0.3190	0.2290	0.3170	0.2340	0.0900	0.0600	0.0600	0.0600
WA	0.2780	0.1500	0.2760	0.1550	0.1050	0.0500	0.0750	0.0500
WI	0.2600	0.1500	0.2580	0.1550	0.0890	0.0500	0.0590	0.0500
WV	0.2890	0.1990	0.2870	0.2040	0.0980	0.0600	0.0680	0.0600
WY	0.3190	0.2290	0.3170	0.2340	0.1130	0.0500	0.0830	0.0500

OAO REJOINDER EXHIBIT-3

Instructions and Links to Access the AT&T's Consumer and Business Plans

USING CONSUMER TARIFF – Basic Rate Plan and all other plans in states which have tariffs

From www.att.com

Select "About AT&T" tab

Select "Service Publications" in the "Public Policy and Regulatory Information" section, which takes you to:

http://www.att.com/gen/public-affairs?pid=9700

Select a state on the map and then select "Residential"

Under the company "AT&T Communications of the XXX …" select "Learn More" under "State tariffs"

Select a state again

Select "Tariffs". You have to look through the different tariffs to find the service in which you are interested. The tariff may differ for each state.

As an example from

http://www.att.com/gen/public-affairs?pid=9700:

Select "AZ" for the state.

Select "Residential"

Under AT&T Communications of the Mountain States, Inc. …, select "Learn More" under "State Tariffs:

Select "AZ"

Select "Tariffs"

Select "AZ Message Telecommunications Service"

Search for "X Schedule, Dial Station"

OAO REJOINDER EXHIBIT-3

As another example, from

http://www.att.com/gen/public-affairs?pid=9700:

Select "TX" for the state.

Select "Residential"

Under AT&T Communications of the Southwest, Inc…., select "Learn More" under "State Tariffs:

Select "TX"

Select "Tariffs"

Select "TX MTS TOC Section 1 MTS and OCPs"

Search for "Schedule X"

USING CONSUMER SERVICE GUIDE – Basic Rate Plan

From www.att.com

Select "About AT&T" tab

Select "Service Publications" in the "Public Policy and Regulatory Information" section, which takes you to:

http://www.att.com/gen/public-affairs?pid=9700

Select a state on map and select "Residential"

Under the company "AT&T Communications of the XXX …., select "Learn More" under "State Guidebooks/Service Guides" which takes you to:

http://www.serviceguide.att.com/ACS/ext/index.cfm

Select "Domestic Service Guide" on the left

Select "AT&T State to State Direct Dialed Basic Rate Plan"

Select "AT&T State-To-State Direct Dialed Basic Rate Plan service guide"

Once link opens, go to bottom of page and in the last paragraph, select the "information" link,

Select the desired state. Only states that have "Service Guides" for the "Basic Rate Plan will be available to select.

OAO REJOINDER EXHIBIT-3

USING CONSUMER SERVICE GUIDE – One Rate USA, AT&T True Reach and AT&T Reach Out America

From www.att.com

Select "About AT&T" tab

Select "Service Publications" in the "Public Policy and Regulatory Information" section, which takes you to:

http://www.att.com/gen/public-affairs?pid=9700

Select a state on map and select "Residential"

Under the company "AT&T Communications of the XXX ...., select "Learn More" under "State Guidebooks/Service Guides" which takes you to:

http://www.serviceguide.att.com/ACS/ext/index.cfm

Select "Domestic Service Guide" on the left

One Rate USA

Scroll down to "Local Services Bundle", select One Rate USA, a new document opens up, scroll down to bottom and click on desired state

AT&T TRUE REACH AND AT&T REACH OUT AMERICA

Scroll down to "Offers No Longer Available to New Customers", and select "more" at the bottom and you will then see expanded list of grandfathered plans

Scroll down to AT&T True Reach or AT&T Reach Out America, select plan, and a new page opens up,

Select the Plan again, a new document opens up

Scroll down to bottom of document, in the last paragraph (usually) it talks about state rates (for de-tariffed states), select the "information" link, new screen opens up

Select desired state

USING CONSUMER SERVICE GUIDE – AT&T In-State Overlay, AT&T IntraLATA Overlay and AT&T IntraLATA Overlay II

From www.att.com

Select "About AT&T" tab

OAO REJOINDER EXHIBIT-3

Select "Service Publications" in the "Public Policy and Regulatory Information " section, which takes you to:

http://www.att.com/gen/public-affairs?pid=9700

Select a state on map and select "Residential"

Under the company "AT&T Communications of the XXX ...., select "Learn More" under "State Guidebooks/Service Guides" which takes you to:

http://www.serviceguide.att.com/ACS/ext/index.cfm

Select "State Specific Service Guides" on the left

Scroll down to "Offers No Longer Available to New Customers", and select "more" at the bottom and you will then see expanded list of grandfathered plans

Scroll down to AT&T In- State Overlay or AT&T IntraLata Overlay OR AT&T IntraLATA Overlay II, select plan, and a new page opens up,

Select the Plan again, a new document opens up

Scroll down to bottom of document, in the last paragraph (usually) it talks about state rates (for de-tariffed states), select the "information" link, new screen opens up

Select desired state

BUSINESS TARIFF OR SERVICE GUIDE FOR THE "ALL IN ONE" PLAN AS WELL AS OTHER BUSINESS PLANS

From www.att.com

Select "About AT&T" tab

Select "Service Publications" in the "Public Policy and Regulatory Information" section, which takes you to:

http://www.att.com/gen/public-affairs?pid=9700

Select a state and then select "Business"

Under the company "AT&T Communications of the XXXX...., select "Learn More" under "State tariffs"

Select state again

Select "Services"

OAO REJOINDER EXHIBIT-3

Under "Custom Network Services", select "the Price List",

On "Price List" page, select either Section 10 or "AT&T All in One Service". Only one of these will be available. If "AT&T All in One Service" is available, go to Section 10 within the document.